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SOCIAL PERFORMANCE MANAGEMENT

IN INDIAN MICRO FINANCE

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ABSTRACT

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SOCIAL PERFORMANCE MANAGEMENT IN INDIAN MICRO FINANCE By IMRAN AHMED JAFRI

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Indian Microfinance sector has grown by leaps and bounds over the last decade. With more and more players getting interested in the 'double bottom-line', concerns are now being raised about the efficacy of microfinance as a tool to fight against poverty and its social relevance in the face of increased commercialisation. This study is an attempt to examine the social performance and responsibility of MFIs in India using the social performance management (SPM) framework. The SPM tools have been developed with the purpose of helping MFIs understand social change outcomes of their programmes to make them more pro-poor. This is an exploratory study involving both secondary and primary sources, using a combination of methods. In all, the analysis is based on data pertaining to 6 MFIs and 522 clients put in a comparative framework to draw the conclusions.

Comparative analysis of the case studies points to an increasing tendency among microfinance institutions to focus away from the objective of poverty reduction as they get driven by bottom-line considerations, increasing resort to geographic expansion, inclusion of non-poor clients, multiple lending etc. When an MFI focuses on rapid growth it results into desertion of non-financial services and livelihood support programmes which are essential for the poor to derive maximum benefit from the credit facilities. There is a lurking danger of dilution of the mission in such cases. Only those organisations with definite focus on poverty with rights based approach to social development are inclined to continue to be pro-poor.

The study finds that Social Performance Management (SPM) is a powerful tool for the MFIs to align their strategy with their mission. With concerted efforts SPM could evolve further and emerge as not only a powerful social reporting tool, but also an instrument for internal self assessment.

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Chapter 1

Introduction

The origin of Microfinance in India is generally attributed to the Non Governmental Organisations (NGOs) primarily functioning in the rural areas. Although co-operatives had already been offering credit facilities to small and marginal farmers, the term microfinance was never used as such. SEWA (Self Employed Women's Association) Bank is one of the oldest microfinance organizations (Guha, 2004). It was founded in 1974 in Ahmedabad, Gujarat, which, for the first time, started organizing self-employed women and offered micro-credit in a formal manner. The Regional Rural Banks (RRBs) were operating since 1975 with emphasis on the priority sector lending and other state assisted programmes like the Integrated Rural Development Programme, but proved to be a dismal failure in terms of efficiency. It is in this context that the National Bank for Agriculture and Rural Development (NABARD) launched a Self help group (SHG)-Bank linkage programme (SBLP) under a pilot project in 1992. An SHG is an affinity group of less than 20 individuals from similar socio-economic backgrounds. They come together to pool in their thrift that can be leveraged to avail loans from the formal banking sector as also other financial services.

Over a period of time many NGOs and community based organisations (CBOs) have started micro finance delivery systems successfully in rural areas of India based either on SHG-bank linkage model or on the model popularised by then by the Grameen Bank of Bangladesh. Under the latter, MFIs lend directly to solidarity groups of 5 members formed at the village level using funds sourced from multiple sources including banks and donors. By definition, microfinance institutions are organisations that provide thrift, credit, interest-free start up funds and other financial services and products of smaller amounts, mainly to poor in rural, semi-urban and urban areas for enabling them to raise their income level and improve living standards (Nair, 2001; Fisher and Sriram, 2002). As in the case of Bangladesh women are the predominant participants of microfinance programme in India. Microfinance thus has come to represent an antipoverty programme that has the potential to empower women not only economically, but socially and politically too.

It must be noted that microfinance has grown within India in a highly skewed manner. Southern states were the first ones to actively participate and start group lending activities. States like Andhra Pradesh, Kerala, Karnataka and Tamil Nadu pioneered this activity in the early 1990s followed by West Bengal and Orissa and the rest of the states. As mentioned earlier in the initial years, micro finance programmes were mainly organised by NGOs as an informal, unregulated and not-for-profit activity. While donor funds supported these programmes in the initial phase, many commercial banks came forward to fund them from the mid 1990s onwards, thanks largely to an enabling directive from the Reserve Bank of India (RBI) urging the commercial banks to treat lending to microfinance programmes as mainstream banking activity. The initial experimental models successfully proved, in the famous words of Dr. Yunus, that “the poor are bankable”. Having achieved a considerable degree of success in terms of outreach and profitability, many leading NGO-MFIs were ready to grow bigger and spread wider by transforming themselves to legally regulated for-profit structures. Social entrepreneurs began seeing microfinance as a socially relevant and commercially viable opportunity. Thus by the dawn of the new millennium microfinance has come to be looked upon as a successful tool to tackle poverty and also earn returns for entrepreneurs and investors. Table 1.1 and 1.2 present the status of SHG and MFI models in the country respectively.

Table 1.1 Growth of SHGs in India

Year (end - March)	No. of SHGs linked		Bank loan		Refinance assistance	
	During the year	Cumulative	During the year	Cumulative	During the year	Cumulative
1	2	3	4	5	6	7
1992-93	255	255	0.29	0.29	0.27	0.27
1993-94	365	620	0.36	0.65	0.19	0.46
1994-95	1502	2122	1.79	2.44	1.67	2.13
1995-96	2635	4757	3.62	6.06	3.53	5.66
1996-97	3841	8598	5.78	11.84	4.99	10.65
1997-98	5719	14317	11.92	23.76	10.74	21.39
1998-99	18678	32995	33.31	57.07	30.7	52.09
1999-00	81780	114775	135.91	192.98	98.04	150.13
2000-01	149050	263825	287.89	480.87	250.61	400.74
2001-02	197653	461478	545.47	1026.34	395.76	796.5
2002-03	255882	717360	1022.33	2048.67	622.3	1418.8
2003-04	361731	1079091	1855.53	3904.2	705.4	2124.2
2004-05	539365	1618456	2994.26	6898.46	967.8	3092
2005-06	620109	2238565	4499	13397.46	1067.7	4159.7
2006-07	1105749	-	6570	-	1292.86	5452.56
2007-08	1227770	-	8849.26	-	1615.5	7068.06
2008-09	1609586	-	12253.51	-	2620.03	9688.09
(Amount in Rupees crore)						

Note : 1. Data for 2008-09 are provisional. 2. Data relates to Commercial Banks, RRBs and Co-operative Banks.
3. From 2006-07 onwards, data on number of SHGs financed by banks and bank loans are inclusive of 'Swarnajayanti Gram Swarozgar Yojna1 (SGSY) SHGs and existing groups receiving repeat loans. Owing to this change, NABARD discontinued the publication of data on a cumulative basis from 2006-07.
Source : NABARD.

Table 1.2: State-wise Spread of MFIs: Outreach, Portfolio Size and Coverage

State	MFI	HQ	Outreach	Portfolio	Ticket	Districts	Poor Districts
Andhra Pradesh	40	32	49,49,393	3,56,527.87	7203	23	19
Karnataka	27	17	32,29,378	2,14,805.43	6652	29	9
West Bengal	29	21	23,64,838	1,19,657.42	5060	19	16
Tamil Nadu	39	24	23,53,969	1,19,088.11	5059	32	10
Maharashtra	30	14	22,08,784	57,998.76	2626	35	19
Orissa	32	22	14,40,032	80,891.87	5617	31	25
Uttar Pradesh	26	14	8,12,702	76,437.32	9405	43	24
Madhya Pradesh	23	9	5,51,235	32,630.64	5920	33	17
Bihar	35	20	4,00,223	24,447.46	6108	26	26
Chhattisgarh	9	0	3,97,757	26,542.02	6673	16	15
Kerala	15	11	3,10,646	14,636.12	4712	14	4
Rajasthan	23	8	2,26,547	20,986.59	9264	26	9
Jharkhand	19	9	1,83,321	12,144.36	6625	17	15
Assam	6	5	1,63,005	7,739.77	4748	24	11
Gujarat	15	9	1,11,521	11,951.06	10716	17	5
Tripura	1	0	76,619	3,256.36	4250	3	2
Delhi	15	4	67,947	11,315.25	16653	7	0
Uttarakhand	13	4	65,022	3,027.23	4656	7	3
Meghalaya	2	0	42,014	3,182.80	7576	2	2
Haryana	10	0	33,908	3,587.97	10581	20	3
Puducherry	4	0	21,805	509.52	2337	2	0
Sikkim	2	0	6,454	423.47	6561	1	1
Andaman And Nicobar Islands	2	0	4,170	86.52	2075	2	0
Himachal Pradesh	3	0	3,574	321.08	8984	1	1
Manipur	2	2	3,005	142.29	4735	6	2
Goa	1	0	2,200	159.5	7250	0	0
Punjab	2	0	1,804	234.14	12979	3	2
Chandigarh	1	1	224	31.32	13982	1	1
Nagaland	1	0	0	0		4	3
Grand Total : India	**233**	**226**	**20026356**	**1202762.25**	**6006**	**422**	**235**

MFI indicates	Total Number of MFIs operating in the State
HQ indicates	Out of total MFIs, the number of MFIs having HQ in the State
Outreach	Clients services
Portfolio	Portfolio Outstanding(in Rs. lakhs)
Ticket	Estimated Average Ticket size (Rs.)
Districts	Total No of Districts Served
Poor Districts	Out of total districts served, number of Poorest Districts

Source: Adapted from "The Bharat Micro Finance Report - Quick Data 2009"

Note. For the general understanding of the reader, following are the conversions of the Indian terms into Western equivalents in this document:-
1 US$ = 45.59 INR as on Nov 20th, 2010
1 GBP= 73.04 INR as on Nov 20th, 2010
1 million= 10 Lacs
10 million =1 Crore

1.1 Microfinance as Poverty Lending

The poverty lending approach to microfinance focuses on reducing poverty through credit and other resources provided by institutions that are funded by donor and government subsidies and other concessional funds. A primary goal is to reach the poor, especially the poorest of the poor (Robinson, 2001). The other significant aspect of the SHG focused approach to microfinance is the emphasis on savings, not only as a condition to receive loans, but as the necessary step towards household level capital formation. Savings is also seen as very critical from the point of view of empowerment of the poor women who are assetless.

As Nair (2001) argues, “microfinance as an approach to poverty reduction emerged as a response to the apparent failure of state-owned credit institutions, including the cooperatives, to reach out to the poor and the 'disappointing' performance of government programmes of poverty alleviation (like the Integrated Rural Development Programme or the Development Women and Children in Rural Areas) that were meant to enable the poor to earn supplementary income from self-employment”. By following a group based approach that encourages self selection, MFIs are expected to make poverty lending cost effective, while peer pressure and monitoring within groups acts as intangible collateral.

1.2 Institutional and Legal Models of Indian MF

Since there was no legal framework for MFIs in India the sector developed and evolved around the good management practices being followed by the NGOs globally and the reporting procedures were mainly guided by the demands of the funding agencies which were either statutory or international in nature. The procedures were mainly adopted from the corporate world around them. Although it does not fall under the purview of this study, it would be wise for the reader to get an idea about the legal structures under which the MFIs operate in India currently. According to a report by Sa-dhan, an apex membership body of Indian MFIs, there are mainly four types of structures in India

a) MFIs as Charitable Institutions which are societies under the Societies Registration Act, 1860 or Trusts registered under the Trust Act, 1882.
b) MFI as Co-Operatives, state level or national level under Cooperative Societies Act, 1995
c) MFI as Companies, under the Companies Act, 1956 with a special permission to operate as Non Banking Finance Company (NBFC) from RBI (under section 45-1A of the RBI Act)
d) MFI as Banks directly under RBI

Similar to the diversity in the legal structures, there are various business models of MFIs in India some of them indigenous and some adopted from foreign models. Broadly there are five models as given below:-

a) Self Help Groups (SHGs)
b) Federated SHGs
c) Grameen Model
d) Co-operative Model
e) BRAC Model

These models vary in their legal forms, in the channels and methods of delivery, in their governance structure, in their approach to sustainability and also in their approach to microfinance. (Guha, 2004).

Self Help Group (SHG) Model

This is the oldest model of MF in India. Promoted by the government and statutory agencies like NABARD, it became popular with the NGOs and was widely used in India till the 1990s. Till today government programmes have SHG as the part of their core strategy. Main objective of this model is capacity building of community based institutions through functions like enabling, educating, networking and consulting. SHGs are small and informal groups with 10-20 members of similar profile. Most of the SHGs operating in India involve only women. The group members meet regularly at an appointed time and place for carrying out their savings and credit activities and other

issues of development. The group mobilizes savings among the members and issues need based loans to the members out of the common funds created. Once the SHG becomes self sustaining, the NGO will move on to form and support a new group.

Federated Self Help Group (FSHG) Model

Federations are generally a group of SHGs brought together for a purpose of greater synergy in functioning. Examples of leading FSHGs include PRADAN, Chaitanya and SEWA. Federations usually come under the Societies Registration Act. They have between 1000-3000 members. There is a distinct three-tier structure in federations – the SHG is the basic unit; the cluster is the intermediate unit and an apex body or a federation represents the entire membership. Each SHG participates directly in the representative body at the cluster level. Two members from each SHG attend the monthly cluster meetings. Information from the groups to the apex body and vice-a-versa is channelled through the cluster level representative body. The cluster leaders are a highly effective part for group monitoring and strengthening. So the operations of the apex body are decentralized through these clusters. The executive body at the apex level consists of 9 to 15 members.

Some of the common financial activities of Federations include acting as an agent and manager of external credit funds, assisting SHGs with loan recovery in difficult cases, strengthening weak SHGs, so that they are able to carry out their savings and credit function smoothly, providing insurance and housing finance, and support services.

Grameen Bank Model

The Grameen Bank Model of Bangladesh developed by Dr. Muhammad Yunus has been highly successful in reaching out to the poor and with its banking services . MFIs across the globe have been inspired by this model including many in India, like SHARE Microfin Ltd, Activities for Social Alternative (ASA) and CASHPOR Financial and Technical Services Ltd.

Under the Grameen model, homogenous groups of five members are formed at the village level. The field worker of facilitates the process of group formation. All the group members undergo a 7day compulsory training of 1-2 hours per day. Some groups undergo the Group Recognition Test

(GRT). It is a screening test that can distinguish between serious and non-serious groups. Actually it is an effective tool to overcome the adverse selection problem.

Once the preliminary groups have passed GRT, and then the women become members of the microfinance programme by paying a one-time member fee. Seven to Eight joint liability groups affiliate together to form a center. Every week Centre meets at a defined time in the presence of a field coordinator/ credit officers. It is mandatory for the members to attend the weekly meetings and all the loan applications have to be approved by other group members as well as Centre members. The loan is disbursed from the bank fund and it is not linked with the group savings. Loan is given to the individual not to the group or the center. The loan disbursement is always done in the Centre. The housing loans are disbursed at the Branch to maintain documentation. The group leader collects the loan repayments and savings prior to the meeting and hands it over to the Centre leader who gives it to the field worker during the meeting. This collected amount is deposited in the branch on the same day. Peer pressure replaces the collateral. Member-borrowers who repaid the loan in time are allowed to get repeated loans and continuous access to increasing credit from Bank. The most significant feature of the Grameen Bank Model has been its high loan recovery rate (98% and above).

The Co-operative Model

Cooperative Development Forum (CDF), Hyderabad is one of the best examples of this model. It has built up a network of financial co-operatives based upon women’s and men’s thrift groups. It is registered under the New Generation Cooperatives Act, 1995. The primary entities of CDF’s Micro Finance Cooperative are the Women’s / Men’s Thrift Cooperative (W (M) TC). Each consists of 300 members. Generally these members reside in the same village. CDF starts with smaller units and encourages these units to extend into larger units. The important factors behind the running of a successful cooperative venture are: a) to justify human resources (staffs); b) to meet statutory /administrative requirements such as audit. The WTC or MTC are divided into small groups (10 to

50 members) to facilitate better monitoring of thrift and repayment of loans. The group members nominate a group leader and the leader enjoys the confidence of the group.

BRAC (Bangladesh Rural Advancement Committee) Model

This model originated in Bangladesh and has grown parallel to the Grameen model. This model is based on the principle of "graduation". The term "graduation" refers to participants moving out of safety net programs and "graduating" into income-earning activities that enable them to sustain themselves without external subsidies. It involves the following key steps:

a) Careful client selection which is critical to ensure only the poorest households are being selected. Since the model is based on household-level economic activities, only people who are physically or mentally able to manage enterprises can be included.
b) Soon after participants are selected into the program they start receiving consumption support in the form of a small cash stipend or goods in kind. This support gives them "breathing space" by stabilizing their consumption. It can be offered through a pre-existing safety net program.
c) Once people's food consumption stabilizes, they are encouraged to start saving, usually in an individual account at a microfinance institution (MFI). In addition to building assets, regular savings instils financial discipline and familiarizes potential participants with the MFI.
d) A few months after the program starts, each participant receives some form of subsidized asset transfer to help jump-start an economic activity. To identify sustainable livelihood options in value chains that can absorb new entrants, support services and market infrastructure must be thoroughly analyzed beforehand. Once several options have been identified, the participant chooses from a menu of assets, based on preferences and past experience. To mitigate risks, households need to engage in multiple activities; short-term and long-term assets should be mixed; and if the asset chosen is livestock, it should be disease-resistant and easy to care for. The crucial part of the model is the regular monitoring and coaching of participants by dedicated staff. Ultra poor people generally lack self-confidence and social capital. The skills-training builds up expertise and confidence, but it's usually not enough to boost self-confidence. Weekly household visits by staff allow for monitoring but even more so for "coaching" over the 18 to 24 months of the program.

Achieving food security, stabilizing income, accessing healthcare, and having a plan for the future are key elements of moving out of extreme poverty. In some cases, program participants will become full-fledged microfinance clients, using savings services and borrowing and repaying loans.1

1. *This section largely draws from "Salient features of Microfinance Institutions in India", Samapti Guha, 2004*

Chapter 2

Research Problem, Objectives and Scope

2.1 Problem Definition

As mentioned in Chapter 1, microfinance sector in India has grown impressively over the last two decades in terms of client outreach and profitability. The growth has spurred an urge in MFIs to adopt legal forms of organisation that enable them to organise the activity as a for-profit and leverage capital not only as debt from commercial banks, but as equity from investment firms. The RBI's move to grant licenses to MFIs to start non-banking finance companies has ushered the phase of commercial microfinance in the country. However, while the advent of commercial microfinance helped the MFIs get over the capital constraints, it gave rise to a new moral dilemma – Would increased emphasis on profits prompt MFIs to sacrifice their focus on poverty reduction? How to make sure that they do not drift away from the sector's original mission of poverty reduction and achieve the 'double bottom-line' (profits and social performance)?Such concerns have led to the argument that MFIs should go beyond good management practices, accounting methods and reporting of financial performance similar to other businesses to adopt specially designed social performance audits. Social performance management (SPM) is a framework to help MFIs assess their social change orientation and a reference to develop more pro-poor financing strategies.

There is very little understanding as of now regarding the use of SPM framework. On the one hand most of the MFIs are either not aware or have not understood the use of the available tools, on the other, only very few independent research studies have been undertaken in this area to explore the potential of SPM tools in assessing the social orientation. The few available SPM exercises are undertaken by commercial research/ consultancy agencies and hence are likely to be influenced by client demands and investor priorities. It is also imperative in the current Indian context to probe into the probable differences in the social change focus of MFIs that follow a commercial strategy

as also that have adopted a rights based social development approach (i.e., approaches that underscore the right of the poor and excluded to access financial services)

2.2 Research Objectives

Following the above research problem, this study has the following major objectives:

- To review the main tools and techniques available to gauge the social performance and responsibility of MFIs in the Indian context
- To apply select SPM tools on a select set of MFIs to assess their social performance orientation
- To analyse the comparative social performance of the select MFIs with a view to enhancing the current understanding of SPM in India

2.3 Research Design and Scope

This is an exploratory study involving both secondary and primary sources.

Secondary sources

Mixmarket data, rating data from CRISIL, sector reports of Sa-dhan, social rating reports brought out by EDA Rural systems and MFI records.

Primary sources

Data generated through the researcher's field visits, Focus group discussion with clients and extensive discussions with various layers of management of MFIs using a structured set of guidelines.

2.4 Research method

The study used a combination of data gathering methods to construct case studies of 6 MFIs. The case study method was deemed the most suitable given the vast diversity of the MFI sector in the country. According to Yin (1984) the case study research method is an empirical inquiry that

investigates a contemporary phenomenon within its real-life context, when the boundaries between phenomenon and context are not clearly evident and in which multiple sources of evidence are used.

The researcher interned with EDA Rural Systems, Gurgaon, a premier resource agency in the fields of both impact studies and social performance audits for a month to learn the SPM methods. The internship has also helped him to get access to their social rating data pertaining to three MFIs and gave him an opportunity to study an organisation in Delhi independently. In Gujarat two MFIs were studied independently by the researcher to understand the organisational policies as well as the client feedback. In all, the analysis is based on data pertaining to 6 MFIs and 522 clients (Table 2.1).

Table 2.1 Profile of MFIs

	State	Sample size
MFI-I	Gujarat	130
MFI-II	Uttarakhand	138
MFI-III	Orissa	124
MFI-IV	Delhi	15
Prayas	Gujarat	60
Vardan	Gujarat	55

Individual case studies have been prepared based on the secondary and primary data collected, which were analysed in a comparative framework to draw the conclusions. Case studies have been prepared by observing the social aspects while interacting with the MFI staffs and clients to gauge the alignment of strategies with the mission statement in cases where the researcher had the opportunity to visit personally. Other case studies have been prepared by analysing reports and data available on surveys previously done by EDA Rural Systems, Gurgaon.

Note: Names of four MFIs have been withheld upon insistence by the resource providers and MFIs.

Chapter 3
Literature Review

3.1 Introduction

Along with the growing interest of social entrepreneurs, the MF sector has expanded considerably not only in India, but globally. Concerns are now being raised about the efficacy of MF as a tool to fight against poverty and its social relevance in the face of increased commercialisation. There are indications that instead of serving the needy and poor households, the MFIs increasingly focus their attention on less poor and often relatively richer households, keeping in mind the safety and financial sustainability of the MFIs. As reported in the "Microfinance India- State of the Sector Report-2008", poverty audits carried out in eight institutions indicate that only two MFIs had a clear poverty focus and the strategies necessary to target the poor in client selection. One MFI had almost equal number of poor and non-poor as clients. Five other MFIs had large majority of clients from the non-poor and borderline poor categories. But the mission of these organisations clearly stated that they prioritise the poor and the underserved. Similar discrepancies are also observed in SHG model, where the priority is given to women as members, even if they are not from poor households. A study done by the National Council for Applied Economic Research (NCAER, 2008) found that 46 and 64 per cent of SHGs respectively in the states of Andhra Pradesh and Uttar Pradesh had non-poor members in majority. The State of the Sector Report - 2008 put forward many reasons for such apparent mission drift in MFIs. According to the Report the design of staff incentives for new client acquisition in many MFIs is such that it encourages staff members to enlist clients whose economic status is well above the poverty level. They also tend to acquire clients who are the easiest ones to access by means of distance and proximity from the field offices of NGOs or the branch office of the MFI. A combination of these factors results in socially sub-optimal client selection. Thus the Report argues that the incentive structures followed by MFIs drive business in a direction that is not socially oriented.

Given such a scenario, many questions arise that demand urgent attention of policy makers, practitioners and academics alike. Does microfinance actually contribute to poverty alleviation, women empowerment, rural employment and upliftment of the weaker sections of the society? Should the MFIs continue to receive patronage and funding from the state and other investors? What should be the criteria for the investors and funding agencies to decide whether to fund a particular MFI or not?

3.2 Social Performance in Microfinance

Social performance management (SPM) has been advanced as a technique that helps investors and microfinance practitioners gauge the social orientation of microfinance institutions. Social performance may be defined as the effective translation of an institution's social mission into practice (IFAD, 2006). The social mission of microfinance relates to make financial services accessible to the poor and excluded households towards improving their lives and widening the range of livelihood opportunities for them.

SPM as it has evolved in the field of microfinance is a tool to understand the social values and social relevance of the vision and mission statements of MFIs and to analyse the processes and products which are used to achieve the mission and vision. It also helps organisations to reaffirm the social purpose and review and modify the strategies, including that of client selection and targeting, as also the results achieved.

3.3 Measurement of Social Performance

The existing SPM tools try to assess client profile of MFIs, their current processes and products and provide ratings. They do not adequately examine the context in which the MFI is operating. There is hardly any mechanism to understand the needs of the poor clients and to develop products to meet these needs. Also such activities are time consuming and expensive. There are hardly any market surveys to assess demands of the clients. The rapid growth in the size of the sector leaves no room

for addressing the service related issues. There is no mechanism to address customer complaints in a formal manner like the "Banking Ombudsman" for the banking sector under the aegis of RBI.

Imp-Act has developed a five-step framework to manage social performance (Imp-Act, 2005):

(a) Clarify the MFI's mission, objectives and activities: The first step in developing SPM is to clarify the social performance objectives of the organization, the activities that will be undertaken and the pathways by which these activities will lead to the desired outputs, outcomes and impacts.

(b) Plan the SPM system: This process answers some fundamental questions, including:

- Who uses and who is excluded from using the services, does the MFI reach its target market?
- What are the characteristics of clients? Why do some leave or fail to make full use of the services, while others remain active clients over many years?
- Which products and services are useful and effective for clients?
- What changes are happening in clients' lives?
- How can the MFI improve its social performance?

(c) Develop a routine monitoring component: A routine monitoring component provides an MFI with regular, systematic information on the status of its clients. This timely information allows the staff and clients of an organization to make decisions to improve the quality of their work. Monitoring provides signals of change that can be used to alert the organization to issues that need to be better understood or may be used to monitor and report on performance targets.

(d) Develop ad-hoc assessment components: MFIs undertake research to understand specific questions related to marketing, client satisfaction, or the impacts of service provision. Such research supplies a general understanding of a situation and can be focused on answering very specific questions on pressing issues. Understanding the reasons behind the changes observed through an

MFI's monitoring systems helps an MFI respond to its situation and improve the effectiveness of its services.

(e) Use and institutionalize the social performance information: Data from an SPM system provide information about the MFI's performance in view of its objectives. When combined with other institutional data (e.g., financial data, staff performance data, growth statistics), the MFI can create a more comprehensive picture of organizational performance. This information can be fed into ongoing operations and strategic planning activities.

3.4 SPM tools and methods developed by Imp-Act

There are three broad research methods used to develop tools for developing a SPM system for the MFIs. These methods are categorized into three broad types:

(1) Quantitative information on individual clients is usually collected through a survey tool. This generates data points that are analysed using statistical methods to make representative statements about the outreach and impact performance of the programme.

(2) Qualitative information on individual clients is usually collected through in-depth interviews or case studies. These methods generate information in the form of words and narratives that offer detailed insights into the way clients use the services and how different dimensions of impact may be occurring.

(3) Qualitative information collected among groups through techniques such as participatory rapid appraisal (PRA) or participatory learning and action (PLA). PRA techniques involve participants in the exercise of generating information, but do not involve them in a systematic or ongoing way in the analysis and use of the information. PLA techniques focus on group participation in data collection, analysis, reporting and planning as a key feature of programme design. PLA tools are specifically intended to expand skills and ownership among programme participants and increase the capacity of participants to plan, implement, monitor and evaluate their own initiatives.

3.5 Practitioner-oriented social performance assessment tools and approaches (IFAD):

According to IFAD's guidelines in 'Assessing and managing social performance in Microfinance', the selection of tools will depend upon the variety of questions, objectives, requirements and parties concerned and methodological concerns of the work. Therefore a selection tool based on the following questions has been proposed:

QUESTION 1: Does the MFI have the available means to attain its social objectives?

The objective of this exercise is to evaluate whether the implemented means and ongoing actions are appropriate for the institution's social mission. These piloting tools evaluate the "upstream" processes in an MFI's chain of activities and are based on the hypothesis that proportionality of means to objectives can provide better client impact at the end of the chain.

The CGAP poverty audit tool

The poverty audit of the Consultative Group to Assist the Poor (CGAP) is designed to assist in the evaluation of the extent to which an MFI is oriented towards addressing issues of poverty and serving the perceived needs of poor clients. It seeks to separate mere public pronouncements from a concrete and sustained commitment to a poverty focus. For this tool to function properly, it is necessary to identify how institutional practice and action, via the adopted methodology, products and services, actualize the vision of poverty reduction. While this tool is extensive and thorough, it is also costly and more likely to be employed by an MFI when funded by a donor.

The CERISE social performance indicator tool

The CERISE (Comité d'Echanges, de Réflection et d'Information sur les Systèmes d'épargne-crédit) social performance indicator (SPI) tool assists in evaluating the intentions, actions and corrective measures implemented by an MFI, with a view to determining whether the MFI has the means available to attain its social objectives. It can be used internally as a basis for reflection on the MFI's social mission and the means of pursuing this mission or, externally, as a basis for dialogue with the MFI concerning the social objectives of the MFI. Future versions of the tool will

incorporate a social rating function. The SPI tool gathers information available within the MFI, including through staff (e.g., management and departments such as training and human resources) and the MIS. These quantitative and qualitative data can be categorized into four dimensions:

(1) targeting the poor and the excluded;

(2) adapting services and products to the target clientele;

(3) improving clients' social and political capital; and

(4) maximizing the MFI's social responsibility

QUESTION 2: Who are the MFI's clients?

Three kinds of tools are used to evaluate the standard of living of clients.

(1) Monitoring tools capture basic information about who an MFI serves by gathering data on a regular basis from a sample of all clients. These tools might include a few straightforward indicators that offer some basic information about the clients served by the MFI. Prizma in Bosnia and Herzegovina, for example, has developed a poverty scorecard that measures and assigns weights to seven simple, inexpensive-to-collect indicators strongly correlated with poverty. The scorecard ranks clients by both their relative and their absolute level of poverty, allowing the MFI to monitor trends in client status.

(2) Selection tools can help an MFI choose certain categories of clients. This is particularly relevant for the selection of poor clients if the principal objective of the MFI is to fight against poverty by targeting the most deprived.

(3) Evaluation tools can also be used to understand who is actually participating in the programme (and who is excluded from it). This allows the MFI to determine if the targeting objectives are being attained. Such information can then be used to adapt products and services to the real needs of

clients. Determining the standard of living of clients is useful in any subsequent evaluation of the programme's impact and generally constitutes part of the first phase of impact evaluation.

Upstream selection tools

These tools are used to select clients on the basis of pre-established criteria. Applicants who fulfil these criteria will be allowed access to a loan, and those who do not will be turned down. These criteria are determined on the basis of the MFI's objectives, which may be to select poor and excluded populations or, alternatively, clients thought to be safe, as in a bank's scoring system.

Upstream tool 1: Classification by participatory wealth ranking

Participatory wealth ranking (PWR) classifies families on the basis of their level of poverty as determined by the community's own criteria. This tool is based on the idea that poverty depends on locally determined characteristics and that a single indicator imposed from outside may be biased. PWR helps to identify the target population of the "poor" and distinguish between the "poor" and other groupings (e.g., "very poor," "moderately poor").

Upstream tool 2: The Cashpor housing index

The Cashpor housing index identifies the target population of the "poor" and distinguishes among the other wealth groupings on the simple basis of the quality of housing.

Downstream evaluation tools

These tools are used to verify the standard of living of clients who have access to an MFI's financial services. While they do not measure impact as such (i.e., "What is the effect of the services?"), they determine the extent of the MFI's outreach (i.e., "Who has access to the services?"). Evaluation criteria are determined on the basis of the characteristics of the clients to be analysed, including:

- indicators of standard of living and of poverty within the MFI's area of intervention; and

- type of activity (farming, small businesses, etc.) if the MFI targets specific profiles.

These tools generally necessitate client surveys and national or local data as a point of comparison.

Downstream tool 1: The poverty assessment tool of CGAP and the International Food Policy Research Institute

The poverty assessment tool (PAT) aims to answer two simple questions: Who are the MFI's clients and what is their standard of living relative to non-clients? The PAT is based on a five-page questionnaire about family structure, education, principal occupations of adults, food security, housing quality, other goods and access to services. The questionnaire, which takes into account different dimensions of poverty and which is targeted at local households, must be adapted to local conditions (e.g., specific poverty indicators, choice of assets, staple local foods). The PAT results in a relative poverty index that assigns a poverty score to each household and thus permits analysis of the level of poverty of clients compared to that of non-clients (grouped in quintiles, for example).

Downstream tool 2: The ACCION approach to client poverty evaluation

ACCION International evaluates the absolute level of poverty of clients in relation to the rest of the population by using information collected by the MFI from its clients. The ACCION evaluation tool is thus based on existing data. The first phase of the project involves the analysis of the data existing in the MIS of several partner MFIs and a comparison of the results with data drawn from national surveys of households (essentially, the World Bank's Living Standard Measurement Studies).

Downstream tools: Other client evaluation tools

Other downstream tools are used on an ad-hoc basis to evaluate and monitor the profile of an MFI's clients, particularly through the use of monitoring forms (e.g., client forms, family forms, institutional scorecards). In addition, a research programme is working on the definition of client poverty evaluation tools supported by the United States Agency for International Development (USAID) programmes.

QUESTION 3: How are the products and services offered by an MFI used by clients?

Questions relating to how clients use the products and services of an MFI are of greater relevance to marketing and the analysis of client satisfaction. The responses can be used as a basis not only to understand client needs, but also to measure the impact of the services offered. These are evaluation tools to analyse the links between implemented actions and the results at the client level (in terms of outreach, usage and satisfaction) in an MFI's chain of activities. These tools and approaches belong to the category of measures taken by MFIs in the context of service improvement rather than impact demonstration (i.e., improves, not prove).

Portfolio segmentation using the MIS

Portfolio segmentation provides valuable information about the characteristics of clients who perform well in terms of both financial and social performance objectives. MFIs, for example, can identify the characteristics of the clients who contribute most to profitability and those that demand the most resources to be served adequately. Segmented analyses can be conducted relatively simply; the performance of poorer clients can be compared to the overall portfolio, for example. A computerized MIS will generate richer information by "filtering" for certain client characteristics (e.g., gender, region, age, ethnic group, education level, financial product, business) and detailing the performance of each group.

AIMS/SEEP tool 3: Study of credit usage strategies, earnings and savings over time

The goal of the Assessing the Impact of Microenterprise Services project/Small Enterprise Education and Promotion network (AIMS/SEEP) tool is to understand how the usage and allocation of credit, earnings and savings change over time, examine the enterprise's development, analyse the role of clients in decision-making with regard to service use, identify the tangible effects of such decisions in relation to resource allocation and explore the links between the client's household and his or her enterprise.

Evaluation of household budgets

This method of monitoring budgets helps achieve an understanding of family economies and their development by examining and quantifying the role of financial flows in the family's production system and determining how a savings and loans strategy might play a role in these flows. The information relates to monetary flows and the analysis of money management, as well as to nonmonetary flows, including incoming flows (e.g., harvests) and outgoing flows (e.g., family consumption and reinvestment). Flow analysis is of use in learning about the management of expenses and income, stocktaking, margins and revenue, as well as seasonal factors affecting flows.

QUESTION 4: Are the clients satisfied with the services?

The creation of new products can follow client satisfaction analysis either through a complementary market study, or simply by analysing the reasons for satisfaction and dissatisfaction.

AIMS/SEEP tool 5: Client satisfaction

The goal of this tool is to improve understanding of the opinions and suggestions of clients regarding the programme. The client satisfaction tool is based on group discussions on specific themes. This should help practitioners determine the extent to which the clients are satisfied with the programme and what specific modifications would enable a better response to client needs.

AIMS/SEEP tool 2: Study of client exit

The objective of this group of AIMS/SEEP tools is to identify when and why clients decide to leave the programme. They shed light on the programme's strengths and weaknesses.

Qualitative in-depth individual impact assessment protocol, Imp-Act method

The qualitative in-depth individual impact assessment protocol (QUIP) is a method designed to help MFI managers gain a better understanding of their clients through market studies. The information relates to people who make use of the services and people who do not and their reasons for

accepting or rejecting the services. Interviews give clients the opportunity to narrate their side of the story and to speak openly and in detail about the way in which the services they have received have affected them.

The MicroSave Africa tool: A market study for MFIs

The MicroSave tool studies clients and the market through participatory research techniques. Practitioners are given tools for taking stock of the complexity of the financial, economic and social environment of households in order to understand their requirements and limitations and the perceptions of both users and non-users of the MFI. The qualitative method is based on two participatory techniques: focus groups and PRA approaches. Focus groups are group discussions directed through the utilization of an interview guide prepared in advance. PRA-type instruments are participatory diagnostic methods with which the participants themselves collect and analyse data concerning their lives and community (with the help of facilitators). These data are then organized around the central question concerning MFIs (i.e., how do target households manage their money?). The tool provides a discussion guide on approximately 20 domains related to the financial needs of households, including household and community economy (financial service requirements) and access to financial services (financial service requirements and position in relation to competitors, including informal competitors).

The Impact-Knowledge-Market tool, PlaNetFinance

The IKM programme is an evaluation and training programme designed for MFIs and national and international organizations. Its goal is to provide information and make recommendations after a series of studies have been carried out, the principal focus of which is the development of knowledge about impacts, clients and potential clients and the market. IKM tools take their inspiration from AIMS and MicroSave tools. They use quantitative, qualitative and participatory methods and are designed to:

• provide in-depth information concerning clients and non-clients and their activities;

• study the impact of microfinance on clients vis-à-vis their households and enterprises;

• measure client satisfaction and identify causes of dissatisfaction;

• evaluate demand and requirements for credit; and

• evaluate causes of client dropout.

QUESTION 5: What relationship do clients have with the MFI and the products and services it offers?

The socio-anthropological approach: Relations among clients and between clients and the MFI

A socio-anthropological approach facilitates a general examination of the MFI's institutional organization and its social viability on three levels:

1. the impact of the types of credit guarantees (especially in group credit scenarios);

2. the organization of local credit offices; and

3. the integration of these offices in their environment.

In this case, the information derives from:

- participatory observations (observation of the interpersonal relationships of participants);
- open, informal interviews with participants within the MFI;
- semi-formal interviews; and
- focus groups in each office that bring together participants in similar groupings (e.g., employees, managers).

Through ad-hoc studies, the socio-anthropological approach contributes to an understanding of how the MFI relates to its environment. It can thereby improve client relationships and perceptions of the MFI. In sum, it facilitates cohesion between the local culture and the culture of the MFI.

QUESTION 6: How does the socio-economic situation of clients and their families evolve?

The question of the evolution of the economic situation of clients and their families is at the heart of the issue of impact. One can aim to follow observed changes, take stock of the situations of clients and make use of the information in adapting services (the "improve" method). Alternatively, one can aim to establish a more direct link between the MFI's activity and the observed changes in a method designed to "prove" the MFI's impact. One can also monitor the financial strategy of households over time in order to understand this strategy and see how the activity of an MFI relates to it.

CGAP-Ford tools

CGAP seeks to develop indicators that monitor changes in the standard of living. These indicators are then used to evaluate the social performance of MFIs in line with the five principal dimensions of the Millennium Development Goals:

• proportion of clients below the poverty threshold;

• improvement of the economic conditions of clients;

• increase in children's school attendance rates and reduction in illiteracy rates;

• improvement of access to health services; and

• progress in the empowerment of women.

CGAP therefore proposes that MFIs should communicate the level of poverty of their clients and the changes in their standard of living. It does not address impact, as one would quickly be confronted with questions regarding the attribution of effects and the precise delineation of context. How can greater health-care access, better food security, or higher school attendance, for example, be attributed to the MFI alone? The question is all the more relevant since the impact on health and the impact on education are only indirect objectives for an MFI.

AIMS/SEEP tool 1: Impact study

The first AIMS/SEEP tool relates specifically to the question of impact. Its objective is to test hypotheses regarding the impact on the evolution of an enterprise's revenues, changes in commercial practice, management of funds and assets, changes in the family's well-being, the ability of the family to deal with emergencies, changes in savings, employment situation, etc. The surveys compare the situation of a group of clients of long standing with that of a control group of new clients.

Qualitative in-depth individual impact assessment protocol, Imp-Act method:

QUIP is a method designed to help MFI managers gain a better understanding of their clients through market studies. The information relates to those people who make use of the services and those who do not and their reasons for accepting or rejecting the services. Interviews give clients the opportunity to narrate their side of the story and to speak openly and in detail about the way in which the services they have received have affected them.

The household strategy approach: Household activities and the role of credit

Although impact per se (the notorious topic of "proof") is an extremely complicated issue, studies aiming to analyse the strategies and the behaviour of clients are easier to implement. They are more reliable and extremely useful from an operational point of view. In the end, there must be a compromise between proof and improvement. Close analysis of strategies can highlight types of impact more realistically and more reliably than can impact studies based on control groups. At the same time, they also provide information on the use of financial services and any limitations these services may have relating to the MFI and its exterior environment. Work conducted on household strategies aims primarily to establish a typology of households in a given area (system of economic activity and level of wealth) and, subsequently, to understand the economic strategies of different types of households, their needs and financial constraints.

A household's budget can therefore be characterized by identifying various sources of financing and the use made of these by the household. Taken together, such analyses help to illustrate the impact of the MFI on different types of households.

Another qualitative approach, the internal learning system (ILS), provides information that enables debate and reflection to be generated among participants and field workers to review progress and make future plans for both individual and group activities.

AIMS/SEEP tool 5: Empowerment of women

The objective of module 5 of the AIMS/SEEP tools is to:

• determine whether women clients have higher self-esteem and self-confidence after participating in the programme; and

• identify how these qualities translate into specific behavioural changes (at the individual, household, community and enterprise levels) that signify empowerment

QUESTION 7: How do an MFI's financial services fit into a local economy?

Links between MFI services and other sources of financial services (the banking sector, the informal sector) Analysis of the economic impact of decentralized financial systems can be conducted along the lines of the various functions of these systems (savings and loans), observation of the ways in which the systems complement informal and banking systems (in terms of both consumers and activities) and the evaluation of institutional sustainability (economic and social). One such analysis has been carried out in West Africa based on a sample of such systems. It provides a comparative analysis of these systems and the country concerned (e.g., Benin, Burkina Faso, Guinea).

The study, which combines microeconomic approaches with macroeconomic analysis, helps to establish an analytical framework for these systems in general and provides information relating to

the place of the systems, their role in the financial sector and their economic impact. Themes of this study include:

• understanding recent developments in decentralized financial services;

• measuring the impact of the systems in terms of socio-economic development; and

• deriving lessons for operational action.*

In India, certain attempts have been made by organisations like Small Industries Development Bank of India (SIDBI), Sa-Dhan and others to promote social performance management, bringing to centre stage the need for institutions to engage in socially responsible behaviour as also balancing the needs of profits from business with the needs of society. The 'Improving the Impact of Microfinance on Poverty: Action Research Programme' (Imp-Act) Consortium which consists of a group of international agencies is working with more than 30 partners around the world with the aim of supporting MFIs to manage their own social performance management systems. EDA Rural Systems has done considerable work on social ratings and performance in India.

According to Sa-Dhan the concept of downward accountability should be practiced by the MFIs with a set of social objectives that an MFI should have like: (1) reaching the poorer segment among unserved, (2) disseminating knowledge that would help them understand financial services and enable them to make informed choices, (3) providing financial services in a manner that the clients are able to benefit and (4) built-in elements of qualitative nature, which in turn, ensure that the processes of financial services are optimal and appropriate. The Sa-Dhan code of conduct emphasises values such as integrity, transparency, fair practices, governance, and feedback and grievance mechanism.

The prime issue which evolves out of this debate about balance between profitability and social responsibility is often left to the top management of MFIs for decision, although there are a few cases where donors emphasise fulfilment of social mission as a primary (if not the only) concern in the microfinance sector.

**Note: This section draws significantly from "Selecting Tools: Matching Tools to Needs" in Imp-Act (2005c). And "Assessing and Managing Social Performance in Microfinance", IFAD (2006)*

The Susan and Dell Foundation, and Opportunity International are examples of funders who make social performance an integral part of their overall support to the MFIs. SIDBI has been at the forefront with the MFIs on the need for internalising social performance aspects in their processes and products, however there is more to SPM than just poverty audits and ratings.

3.6 Global Microfinance Scenario and Social Reporting - An Analysis of MIX Data

Created by CGAP, Microfinance Information Exchange (MIX) was incorporated in 2002 as an independent organization designed to improve transparency among microfinance institutions (MFIs), provide standardization, and help move the industry towards mainstream financial markets. MIX's core work centers on transparency. MIX collects and validates financial, operational, product, client and social performance data from MFIs in all regions of the developing world, standardizing the data for comparability, and making the information public on MIX Market (www.mixmarket.org). It also supplies basic business information on all actors in the industry — MFIs, funders and investors, networks and service providers. By providing this critical information on a centralized platform, it offers microfinance practitioners, funders, policy makers, academia and others a way to gain a better understanding of the operations of MFIs, the challenges they may face, and patterns in MFI performance within and across regions and markets. Presented here is an analysis of the basic data from the MIX market to understand global microfinance reporting on certain aspects of SPM. Exhibit-3.1 gives an idea about region wise MFIs reporting to MIX on both financial and social aspects. Out of the total number of 1075 MFIs reporting to MIX on financial parameters, 208 also report on social aspects. The Latin America and the Caribbean (LAC) has the highest number reporting on social aspects (80), followed by Eastern Europe and Central Asia (51). Reporting from the Middle East and North Africa (MENA) region seems to be the lowest. This brings to the fore, the stage of evolution of the microfinance industry in each region.

Exhibit-3.2 illustrates legal structure wise reporting of the MFIs. The highest reporting is observed from the NGOs-107 on social reporting parameters followed by Non Banking Financial Institutions (NBFI- 71), Banks (22) and Cooperatives (8). It could be inferred from the data that since NGOs

are the earliest forms of legal entities to have started the fight against poverty and other social objectives, they are the most evolved in terms of aligning their systems to their social mission, and therefore are better equipped to report on these aspects.

Exhibit -3.1

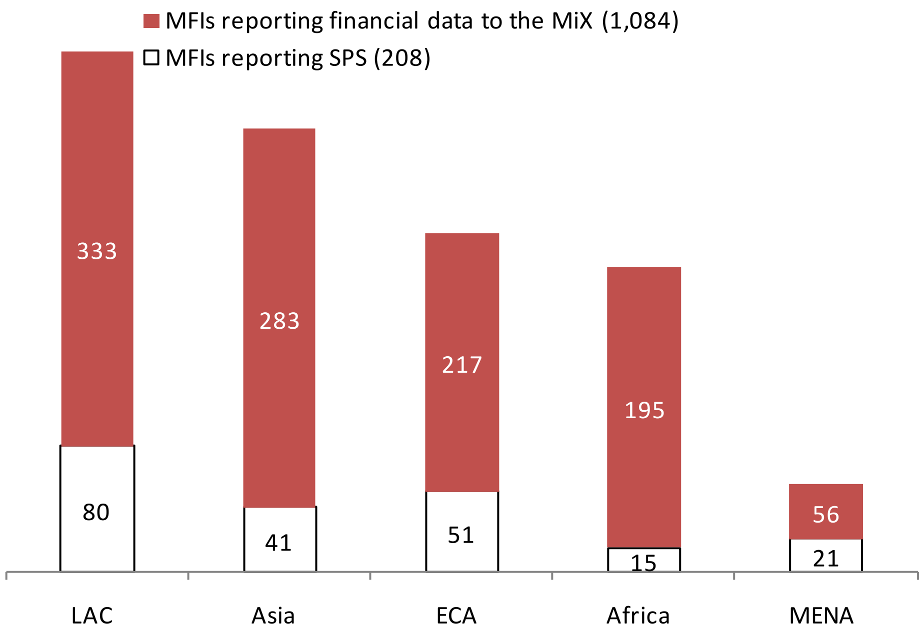
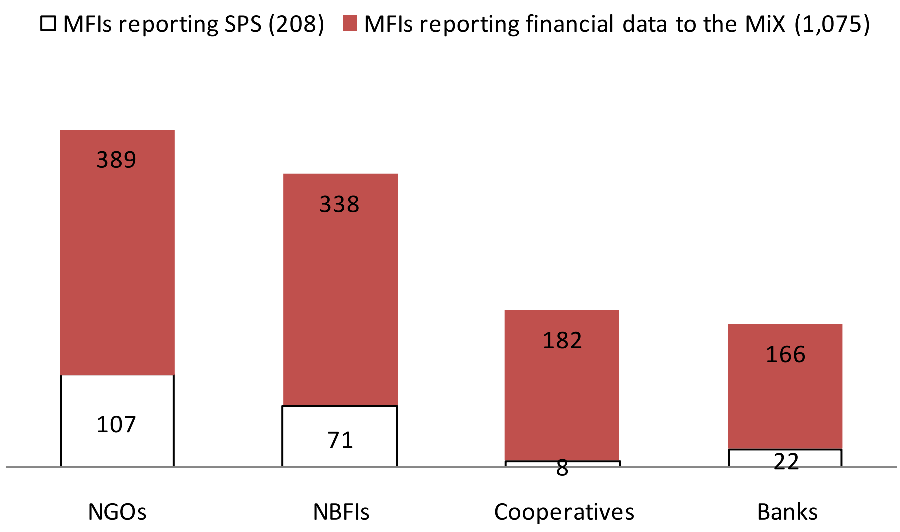


Exhibit-3.2



In terms of geographic outreach, focus of the NGOs and cooperatives seems more towards rural areas with more than 75% targeting the rural areas (Refer Exhibit-3.3). NBFIs and Banks seem to be concentrating more on urban and semi urban areas.

Exhibit-3.3

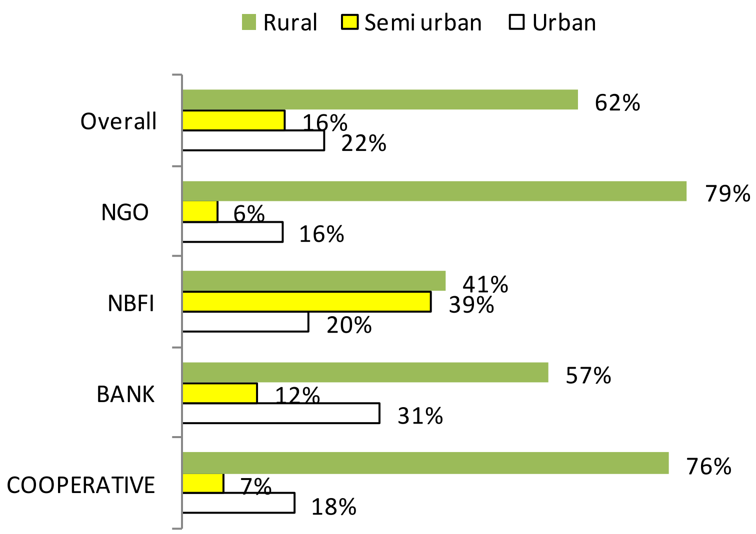


Exhibit-3.4 on Staff attrition shows it is higher than the overall average of 23% for NGOs and NBFIs which would effectively mean that working conditions need to be improved. A lower attrition for Banks (17%) indicates that banks have a more professional approach to management of human resources as compared to NBFIs and NGOs.

Exhibit-3.4

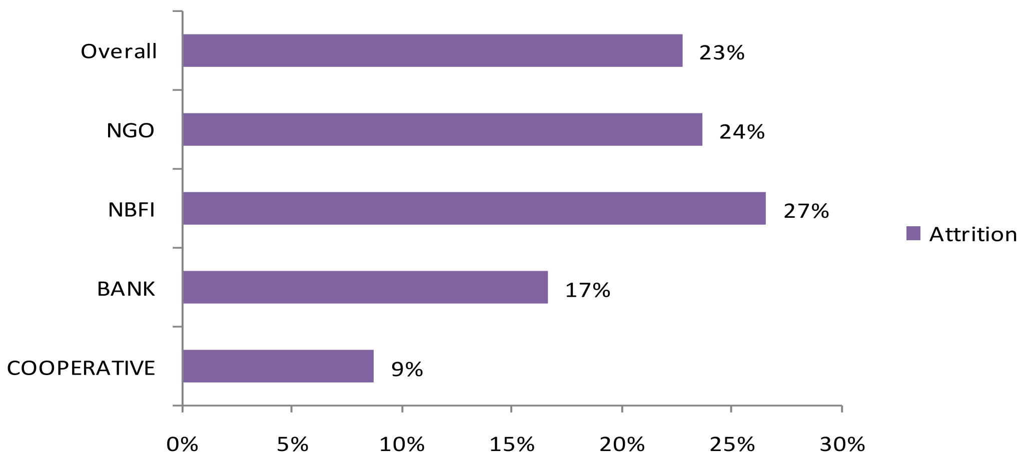


Exhibit-3.5 points at three important aspects of customer centricity. Conducting market research for development of new products to serve the needs of the clients in a better fashion seems to be very important for all the forms of MFIs, however banks seem to be placing highest importance on this

aspect (95%). Client satisfaction surveys are almost equally important form all forms in order to understand the customers better and to make their products and services more relevant to the market requirement. Client drop out or exit is another important parameter, and interviewing such clients would provide valuable feedback for the MFIs, surprisingly NBFIs are significantly higher at 61% than banks (45%) and other forms.

Exhibit-3.5

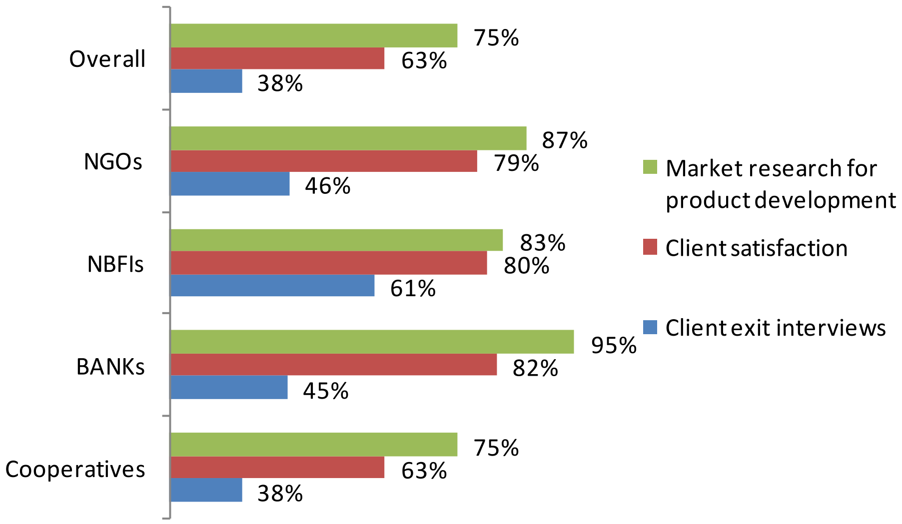


Exhibit-3.6 gives an idea about the priorities of the MFIs for being in the business on eight parameters and is an indicator of clarity of mission. Growth of the existing business and poverty reductions are two most important objectives for the MFIs reporting to MIX on social aspects.

Exhibit-3.6

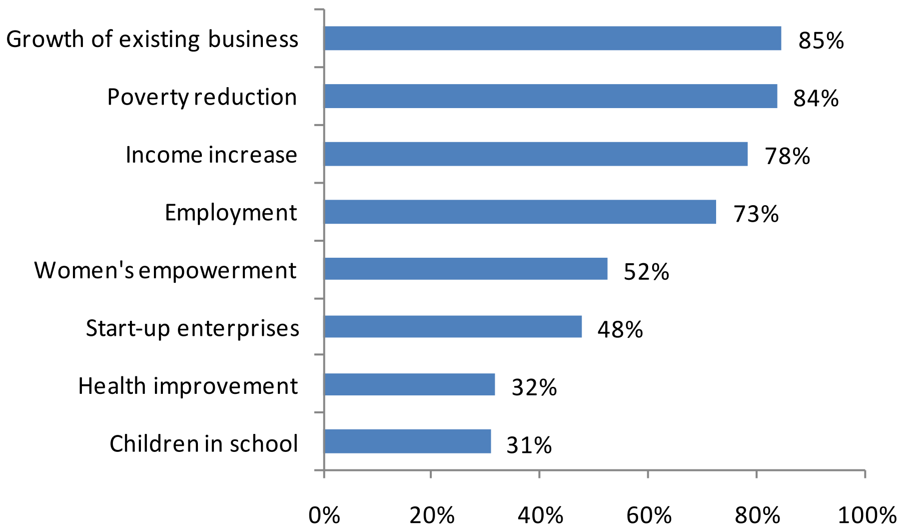


Exhibit-3.7 indicates that 32% of the MFIs reporting to MIX report on poverty data also. 80% of these MFIs target low income, while only 34% target the very poor. This puts a question mark on the inherent ability of microfinance as a tool to fight against poverty, if the relatively better off clients are being targeted. Also it brings to the fore that financial sustainability is more important for the MFIs than poverty eradication as demonstrated in exhibit-3.6.

Exhibit-3.7

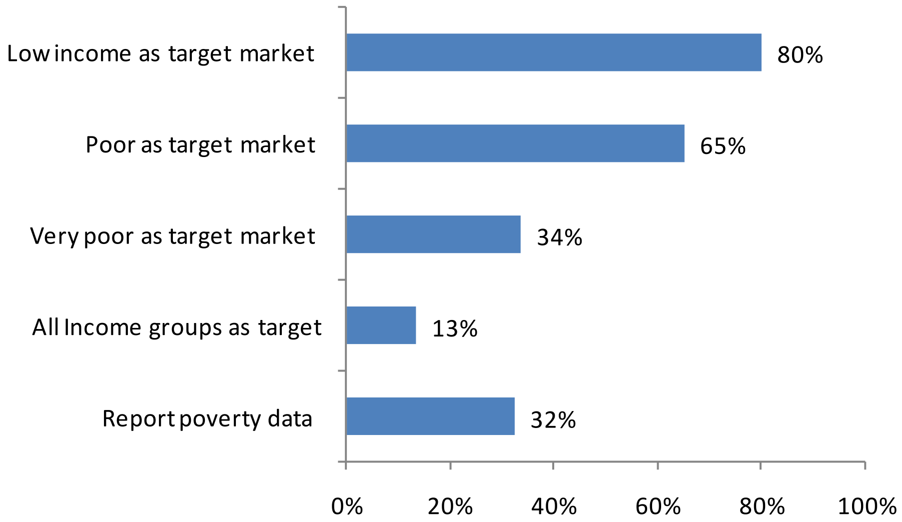


Exhibit-3.8 offers an insight into the strategy of the MFIs, who are mainly targeting women clients. The region-wise women staff to women borrowers' ratio indicates social orientation of the MFI towards women empowerment along with poverty eradication. However, South Asia seems to present a dismal picture with widest gap in terms of women staff and clients. In the same context, banks have a better ratio women staff to clients although NGOs have the highest number of women borrowers as per Exhibit-3.9.

Exhibit-3.8

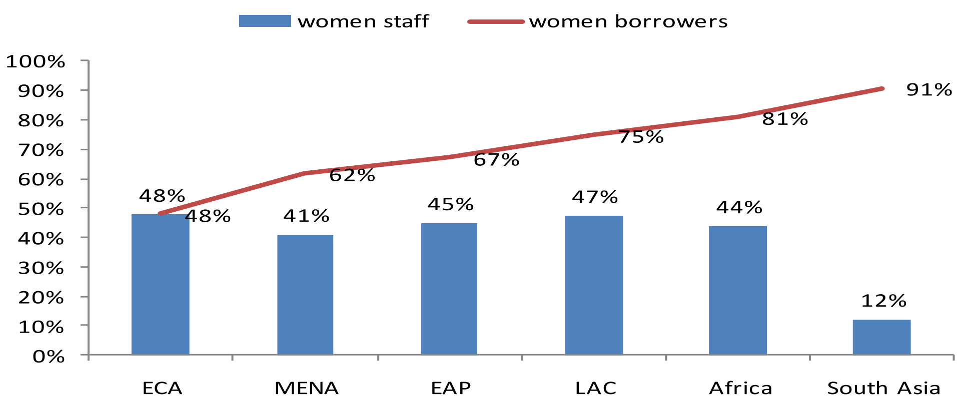


Exhibit-3.9

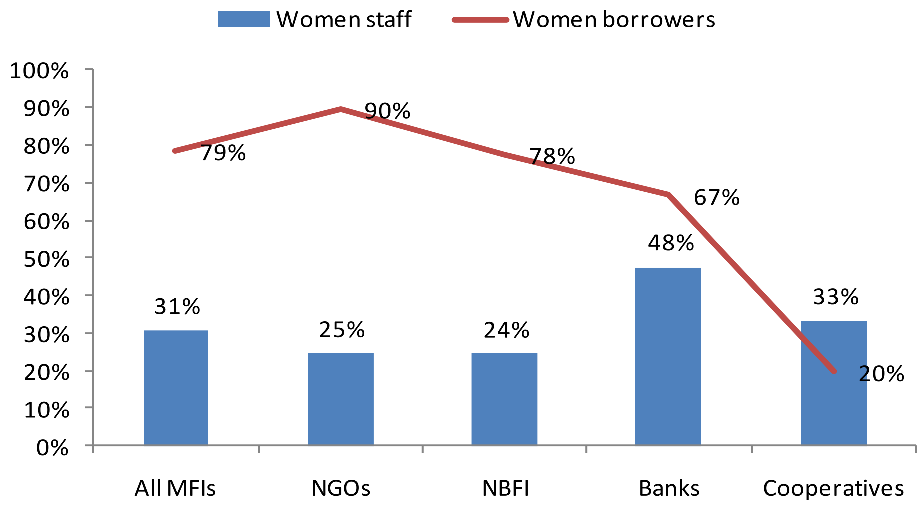


Exhibit-3.10 presents the client dropout rates for various forms of MFI. Cooperatives and banks are better placed with lower rates of dropouts as compared to NGOs and NBFIs. It is surprising to note that NBFIs have a higher than average dropout rate despite placing the highest importance client exit interview. (Refer Exhibit-3.5).

Exhibit-3.10

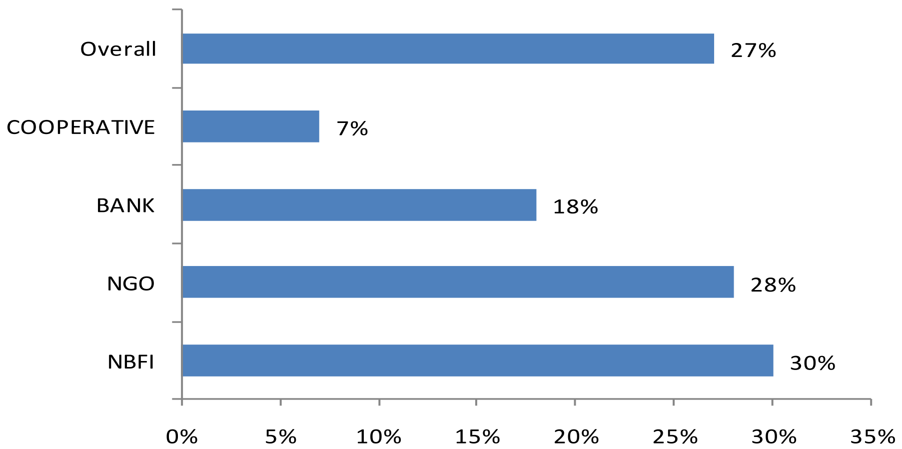


Exhibit-3.11 shows implementation of client protection principles in the marketing strategy as a mark of social orientation. Almost all the forms place equal importance to avoiding over-indebtedness. However as far as transparency in pricing is concerned, banks are far ahead of other forms. This may be due to proper systems and governance or regulatory requirements. In other parameters as well, banks are ahead of the other forms which corroborates the fact that they are the most regulated forms amongst all these entities.

Exhibit-3.11

	Client Protection Principles			
	NGO	Bank	NBFI	Cooperatives
Avoidance of over-indebtedness	62%	70%	66%	59%
Transparent pricing	79%	90%	81%	69%
Appropriate Collections Practices	55%	67%	65%	48%
Ethical Staff Behavior	52%	77%	61%	54%
Mechanisms for Redress of Grievances	45%	65%	51%	45%
Privacy of Clients' Data	47%	73%	58%	57%

3.7 The Conceptual Framework of SPM

Microfinance Industry has grown by leaps and bounds over the last 20 years in India and along with this growth, there are concerns being raised over the balance between profits, social relevance and social responsibility. Investors are very keen to understand the social role and responsibility of the for-profit Microfinance Institutions before making investments. In order to facilitate the process, a set of tools has been evolved called as Social Performance Management (SPM) tools. My research will explore conditions in which SPM becomes significant part of Microfinance practice in India and also to see how efficient and effective is the existing SPM mechanism in assessing the social relevance of Microfinance Institutions.

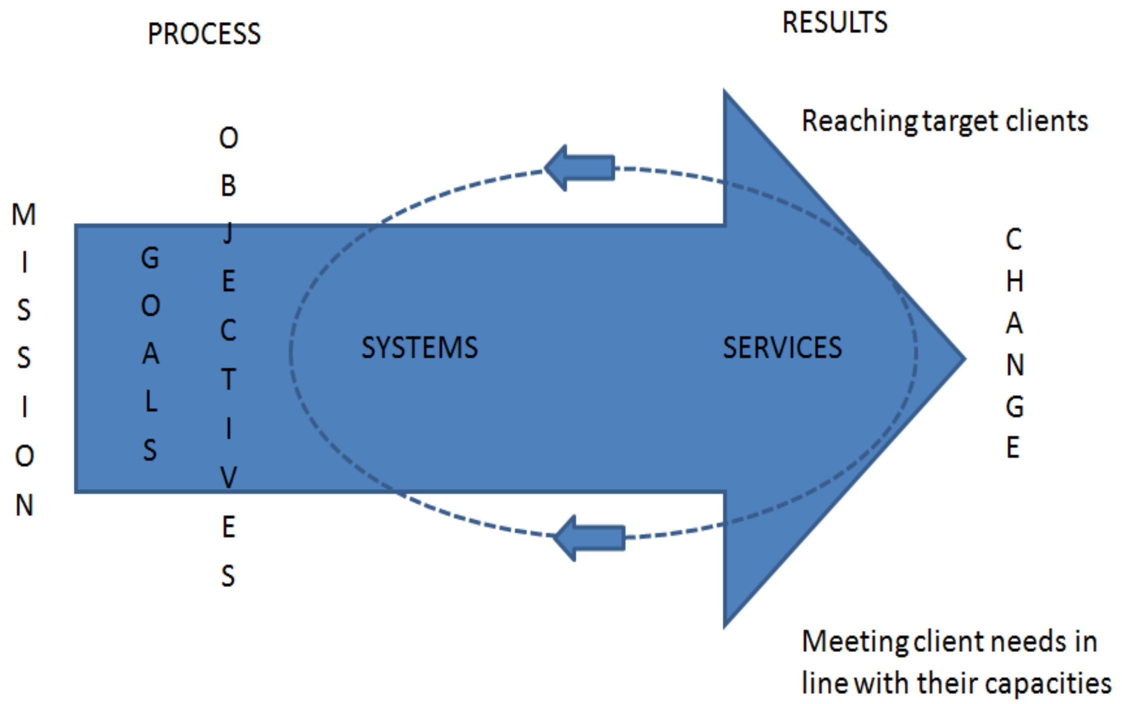
Any attempt to conceptualise social performance of microfinance institutions will have to take account of the interconnections between purpose, process and outcomes (Refer Exhibit 3.12: Imp-Act, 2005). Also important is to consider the dynamic nature of the systems- services interaction that can lead to social outcomes that are optimal or sub-optimal from the point of view of social performance. Since SPM has significant practical value, the framework has to also help

- adapt to various contexts and organisational models of microfinance;
- reduce time and effort;
- apply to both internal self assessment by MFI and external reporting; and
- facilitate benchmarking of social performance across MFIs across countries.

Given these, the key elements of Social Performance framework can be portrayed as in Exhibit 3.13

Exhibit 3.12

The Imp-Act Pathway



Source: Imp-Act Guidelines, http://www.ids.ac.uk/impact/publications/guidelines/Guidelines_Text.pdf with some modifications by EDA Rural Systems, Gurgaon

This framework enables an MFI to keep track of whether it is achieving its social mission and objectives. It feeds back into systems appraisal and design as part of an overall process of social performance management. The framework enables one to draw up an appropriate set of indicators which will not only facilitate systematic examination of social performance of specific MFIs, but also help develop an architecture for the continuous tracking of social outcomes.

Exhibit-3.13

Key Indicators	
Aspect	Dimension
INTENT	1 Mission and vision Governance
STRATEGY	2 Planning and overall profile 3 Products
Values & policies for Social responsibility	4 Client protection 5 Staff 6 Health, safety and Environment
Systems aligned with mission & Values	7 HR 8 MIS 9 Internal Audit
Results	10 Depth of Outreach 11 Appropriate services 12 Change

Chapter 4

Case Studies and Analysis

This chapter presents the six case studies undertaken for this research.

4.1 Case Study-1: Vardan Microfinance, Gujarat

Established in 1998 as a not for profit organisation in Dahod, Vardan Trust spent its initial years working on women's empowerment, children's development and natural resources management. Dahod is a small town in the district of Dahod situated in western Gujarat adjoining the central Indian state of Madhya Pradesh. The district is dominated by tribals also called adivasis in India. There have been numerous efforts by the government and the private sector to uplift the standard of living of these tribals. Many organisations are working in this region for the betterment of the poor. Agriculture is the main source of income for the local people. However, the tribals take up contractual labour jobs in the lean season to support the families either within the district or in distant locations.

After realizing their clients' need for microfinance, Vardan started offering micro loans in 2003. Currently, microfinance is the sole focus of the institution and is carried out through a not for profit company registered under Section 25 of the Indian Companies Act, 1956.. It is in the process of transforming to a non-banking financial company (NBFC) as the promoters believe that the legal status of a for-profit company will enable them to offer a wide range of financial services to the clients.

For the purpose of this study, the researcher met 55 clients of Vardan Trust from two locations - Dahod (30) and Anand (25) - with the objective of getting information about the benefits and end use of the microcredit facilities in order to understand the lending methodology as also the overall business strategy of the MFI. Dahod is the oldest area of operation of the MFI while it started work in Anand fairly recently. Anand is also one of the better developed districts in the state. Detailed discussions were also carried out with the field staff of the organisation during the field survey.

The Microfinance Activity

During the field visit in Dahod, the researcher found that Vardan was quite well known in the region. Within the professional circles, the name of its promoter, Mr. Mahesh Vara is also quite well known. The board as well as the management team of the organisation came across as experienced, well trained and competent. The Chief Executive Officer (CEO), Ms. Kalpana Vara, has an experience in handling microfinance activities for over 10 years. The procedures and systems are quite well defined and spread out. The field staff is very well motivated and due diligence is carried out before expanding the business to new prospects. The promoters have separated microfinance business into another non-profit company under Section 25 of the companies Act, 1956 and which is soon expected to become an NBFC under RBI. This transformation will result in formation of a company which was earlier a not for profit entity moving into the area of commercial microfinance where profit will be one of the main objectives in order to justify funding from investors.

Strategy and Approach

The key steps consist of identification of the potential area, formation of the groups, training the members of the groups, conducting cross verification of information collected about the group members, and then finally lending to the group. Equated monthly instalment (EMI) is collected weekly and hence it is compulsory for each group member to attend weekly meetings. There is a strict discipline followed in terms of attendance in the meetings and adherence to timings, both by the staff of the company as well as clients. The loan is given at a flat rate of interest of 18 per cent per annum. The loan amount is Rs 10,000 for new customers. EMI is Rs 236 per week. After 35 EMIs, the customer can avail new top up facility.

The target market for the MFI in Dahod is mainly tribal women who are self employed, selling vegetables in the market. After conducting several evaluation studies the loan amount has been gradually increased from Rs 2500 to Rs 10,000 over a period of 5 years. It is important to ascertain the end use of the micro credit facility for the MFI and the staffs at Vardan make every effort to determine and subsequently monitor the end use of the credit facility.

Currently Vardan has more than 7500 customers and a portfolio size of Rs 6.5 crore and operates mainly on the joint liability group (JLG) model. The chief funding agencies are the Friends of Women's World Banking (an apex microfinance lender), MAS Finance, and Canara Bank (a scheduled commercial bank). There are 46 employees working in various departments. Once a group is formed a group recognition test (GRT) is conducted by the area manager along with the audit team. When the group clears the GRT the loan is sanctioned and the disbursement is done through bearer cheque from the Bank of Baroda. This is done mainly to avoid large amount of cash handling at the office as well as to train and inculcate banking habits amongst the poor people who rarely have access to formal banking. Insurance facilities are provided to clients through ICICI Prudential Life Insurance Company where in case of death of the client or her spouse the entire outstanding loan amount is waived off.

According to the chief promoter of Vardan, credit facilities from MFI have increased the borrowing power of women, thus empowering them in taking decisions of investment in income generating activities. This empowerment through MFI has resulted into women taking part in village level governing institutions (known as gram panchayats) and actively getting involved in village level politics in at least three villages.

The Anand branch of Vardan is about two years old and follows exactly the same systems as observed at the head office at Dahod. As mentioned earlier 25 clients were visited and interviewed at various places in and around Anand, the area where the branch office is located. The staff was quite well trained and knowledgeable. As compared to Dahod, there was more competition in the market with more than seven MFIs fighting for business. Therefore some of the staff was new and staff turnover appeared to be an issue. Given Vardan's ambitious plans for future once the NBFC starts functioning in full-fledged manner, the issues of competition and staff turn-over could become very critical during expansion to new geographies.

Observations and Analysis

During the meetings with 55 clients from the two different branches, some startling differences in the profile, occupation and social status of clients became clear. For instance, in Dahod the clients

had kutcha houses (huts), while in Anand almost all the clients had pucca* houses, though the MFI did not insist on this as criteria for funding. Housing situation is an important indicator for economic well being in rural areas.

Some of the clients of the also had two wheelers and/ or second-hand four wheelers, consumer durables like TV and refrigerator. After discussions with these clients in Anand, it was clear that approximately 20% of the loan amount was being used for either household expenditure or was passed on to their spouses, for personal use. Not more than 80% of the amount was invested in their businesses. These clients demanded higher amount of credit facility and were of the opinion that a higher credit amount of around Rs. 50,000 will be of help to them for business expansions. It was also observed that despite being quite well off in comparison to the tribal women of Dahod, these clients were less independent. They appeared to lack confidence and assumed that their responsibilities were limited to supporting their spouses in running the households with the help of various income generating activities. In contrast, the tribal women of Dahod were much more self confident, empowered and independent in making decisions about investments in business. This could be due to their longer association with Vardan as compared to clients at Anand. Almost all clients at Anand had access to formal banking, having their own savings accounts with banks or credit societies. Instances of multiple loans were evident in stark contrast to the scenario in Dahod.

One more interesting point to note was that within these groups of women, there was a remarkable religious diversity in Anand. Many groups had both Hindu and Muslim women in the ratio of 4:6. In the backdrop of communal tensions witnessed in the state, bringing women from different communities together to avail the credit facility and encouraging them to volunteer to become guarantors for each other for the common good of all should be considered a commendable achievement for an MFI.

Note : A pucca house is one, which has walls made of materials like burnt bricks, stones (packed with lime or cement), cement concrete, timber and ekra and roof made of tiles, GCI (Galvanised Corrugated Iron) sheets, asbestos cement sheet, RBC,(Reinforced Brick Concrete), RCC (Reinforced Cement Concrete) and timber. Houses with walls and/or roof of which are made of material other than those mentioned above, such as un-burnt bricks, bamboos, mud, grass, reeds, thatch, loosely packed stones, etc. are classified as kutcha houses and houses that have fixed walls made up of pucca material but roof is made up of the material other than those used for pucca house are categorised as Semi -Pucca houses.

Conclusion

There was an indication of a lurking danger of mission drifting once the MFI decided to transform itself into NBFC and expand to new geographies. The targeting strategies appeared to be getting dictated by the competitive market scenario rather than the mission statement with more and more non-poor clients coming into the fold of the MFI's new branches. The client protection principles in terms of avoiding over-indebtedness appeared to be getting diluted in a bid to capture the market share. There appeared to be no tracking of client dropout and the reasons associated with it. It is unambiguous then to conclude that the objective of financial sustainability reigned supreme within the echelons of top management of the MFI while expanding the business and return to the shareholders was being accorded the topmost priority. Social objectives would keep on getting compromised if the MFI continues to expand rapidly in such a scenario.

4.2 Case Study II- Prayas Microfinance, Gujarat

Prayas was registered on the 11th of November 1997 under the Trust Registration Act 1950 and the Society Act 1860. The organization was founded by Bhadresh Rawal and Dilip Dave both having academic backgrounds in agriculture. The two founder members have worked for more than eight years in the development field as part of the Aga Khan Rural Support Program (India) and the Indo-British Rainfed Project (KRIBP) funded by the Overseas Development Agency. Both were responsible for field level management, community mobilization and later for state level coordination.

Rawal and Dave decided to start an organization working on various development activities with focus on rights based issues. They were supported in their efforts by well-known consultants in the state who later became the Board members of Prayas. Over the years, Prayas has worked with Oxfam, Help Age, and the Water and Sanitation Monitoring Organisation (WASMO) etc. While working with various partners over different projects, a need was felt to diversify into economic development and empowerment of the rural poor by liberating them from the clutches of local money lenders. This is how Prayas microfinance was started in April, 2006.

Strategy and Approach Prayas envisions a society where people have better social and economic opportunities with access to financial services and awareness of rights and duties. Since January 1998, the organization started working for the poorest sections of the society mainly backward, schedule caste and schedule tribe families of Dahod district (Gujarat) and Jhabua district of Madhya Pradesh. Initially, the organization worked on community based natural resource management through watershed management for livelihood upliftment of the tribal communities. The operations gradually started expanding to other parts of the state. The main areas of interventions are community based natural resource management, capacity building of village communities (with the focus on women), savings and credit program, income generation activities of SHG members, strengthening local self-governance, taking up issues of basic rights and water and sanitation. Prayas is currently working in 122 villages and 33 urban slums in Gujarat. The focus is on organizing women. Microfinance and livelihoods are the two critical programmatic areas addressed by the organisation.

Prayas has a team of 54 committed professionals and social workers in its 4 units that are working to achieve the organization' mission. Prayas's strength is in mobilizing the most vulnerable communities to address their developmental issues in a participatory manner.

As on June 2010, the MFI had 10716 clients . Majority of them are organised under the JLG model, though some of the earlier clients are still functioning as SHGs (Table-4.2.1). The MFI is trying to reorganize the latter into JLGs. The number of active clients is 6945 with loan amount outstanding at Rs. Rs. 27.8 million as June1, 2010. 33% of the clients are in rural areas and the rest in urban or semi urban areas. The average amount outstanding per client is Rs. 4006. These figures are expected to grow rapidly once the MFI transforms into NBFC completely and also converts all the SHGs into JLGs.

Table-4.2.1: Outreach of Prayas

OUTREACH		Existing	New	Dropouts	Total
a.	Total Members	9805	911	0	10716
b.	Groups	1676	182	0	1858
c	Members-SHG	2756	0	0	2756
d.	No.of SHGs	266	0	0	266
e.	Members-JLG	7049	911	0	7960
f.	JLG	1410	182	0	1592
g	Cluster	17	0	0	17
h	Branch	6	0	0	6

Item No.	As on 1st June, 2010	Total Program
1	**Number of Borrowers**	
1.1	Net number of borrowers	**6,945**
1.2	Loan Borrower in First Cycle	3,838
1.3	Loan Borrower in Second Cycle	1,440
1.4	Loan Borrower in Third Cycle	1,495
1.5	Loan Borrower in Fourth Cycle and above	172
1.6	With more than one Loan	0
2	**Loans Outstanding**	
2.1	Total Number	**6,945**
2.2	Total Amount (Rs.)	**2,78,18,412**
2.3	Average amount per client (Rs.)	4,006
2.4	Total Number of Cluster Coordinators	18
2.5	Borrowers per Cluster Coordinators	386
2.6	Loan amount per Cluster Coordinators (Rs.)	15,45,467

	Area Break up	Loan outstanding	% of total	Number of Clients	% of total
1	Rural	1,00,32,395	36.06%	2,290	33%
2	Urban-semi urban	1,77,86,017	63.94%	4,655	67%

(Source : Internal data of Prayas)

Prayas has worked with many financial partners like; Zilla Panchayat - Jhabua, Cordaid, CASA, IGSSS, Action Aid India, GEC, CARE India, OXFAM (UK), CONCERN World Wide, IOM, GSACS, Women and Child Development Department, WASMO, Ford Foundation (through Samarthan – Bhopal and Unnati, Ahmedabad), American India Foundation, Help Age India, The Hunger Project, Basix- IGS, HDFC bank, Indian Bank, Dena Gujarat Grameen bank, Dena bank, Canara Bank, NABARD, SIDBI and FWWB for the various social and economical development programs. It has a seven-member board of trustees with in-depth experience of microfinance, livelihood promotion and social development.

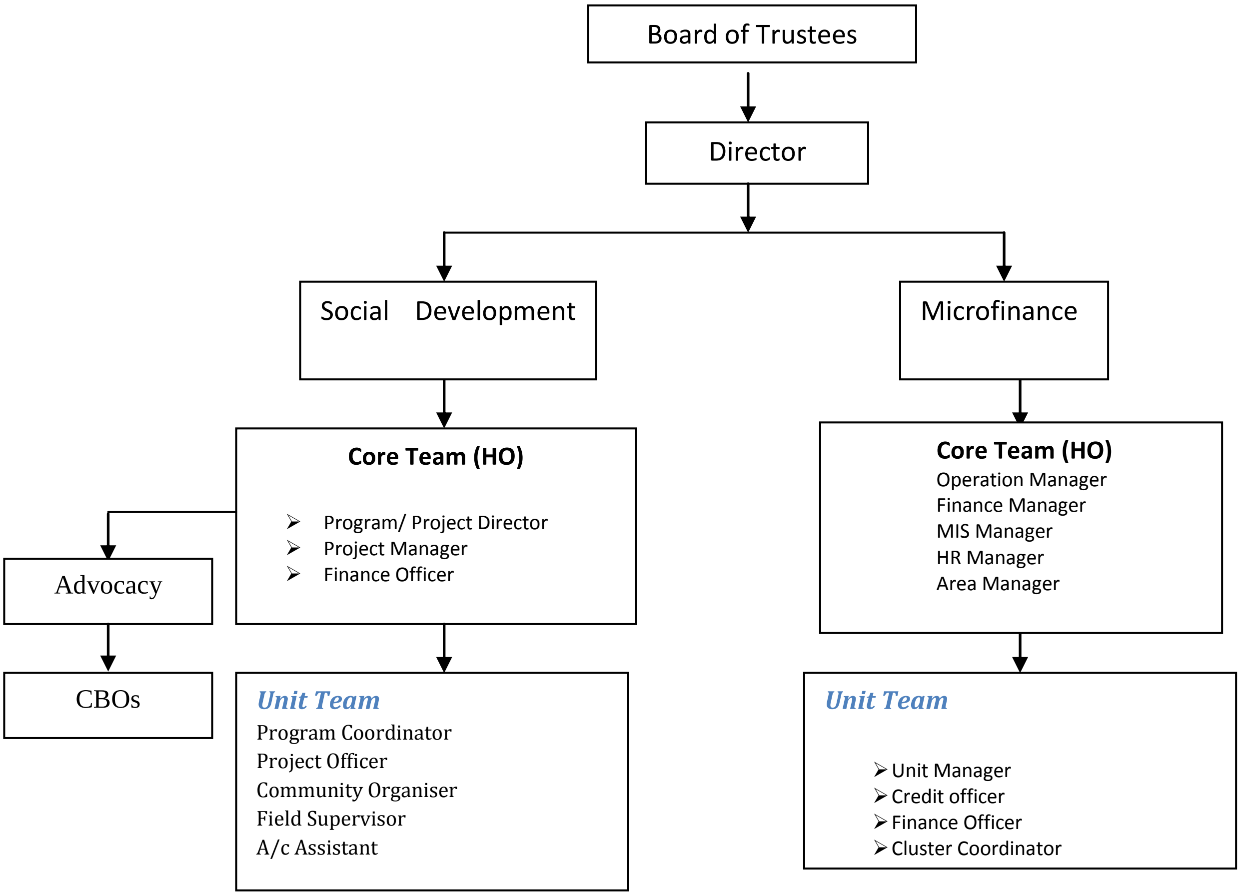
Organisational Structure

For carrying out the activities the organisation is divided into two separate structures (refer Exhibit 4.2.1)

Social Development Wing (SD Wing): SD wing carries out all the development activities of non-financial nature. The wing has several programmes going under it such as natural resource management, water and sanitation, rights based programmes, disaster relief etc. The staff and work is completely separate from the other wing of the organisation providing financial services.

Prayas Jan Vikas Bhandol (PJVB): Jan Vikas Bhandol is the other wing of the organisation providing microfinance services. PJVB is the name of the microfinance programme and has completely separate staff at the unit offices. The office and infrastructure is however, common and shared by the two programmes. In the Prayas office structure, there is a Head Office based in Anjar and there are Unit Offices. At present there are six unit offices: 1. Dahod 2. Anjar 3. Rapar 4. Gandhidham 5. Surendranagar, 6.Jhabua (Madhya Pradesh).

Exhibit 4.2.1 Prayas Organogram



Observations

The researcher met 60 clients of the organisation and had their feedback on a variety of aspects that have implication for its social performance.

The operations were initially based on SHG model and later changed to JLG model due to operational issues. The target customers are predominantly from SC, ST and minority communities and to identify proper target groups, the initial loan amount is fixed at Rs. 7000. The management believes that limiting the first loan amount helps them avoid inclusion of non-poor. It was felt that tracking of use of credit was important. At the time of the study no formal mechanism existed to track the use of credit, although appointment of an internal auditor was in process, which could take care of this aspect. Regular feedback from clients is obtained and periodic adjustments are made in the product design and portfolio. Also if a customer gets access to multiple loans, she is discouraged to join the group. Some other observations are as under:-

1.Most of the clients were deserving poor with no access to formal banking. Loans were mainly availed for purchase of milch animals, garment dyeing work and grocery business. The first loan was mainly utilised in repaying old debts to local money lenders and subsequent cycles were utilised to purchase new assets or expand business. However it was observed that within milch animals, the prices of buffaloes have increased to levels which the current ticket size does not facilitate to purchase. Hence the customers found it difficult to purchase buffaloes, although they would prefer to have one considering their higher yield and earning potential.

2.Client dropout is not monitored; however the main reasons for dropout are strict discipline requirements, graduation to formal financial systems and migration to other geographies.

3.Most of the clients admitted that loan has helped them in numerous ways. It has given them a source of alternative livelihood, in absence of which, they were forced to work as domestic servants, doing household chores at homes of the affluent people. The only option for them would be to borrow money from local moneylenders at exorbitant interest rates.

4.While the credit facility was appreciated by the clients, most of them lamented the discontinuity of the livelihood support programmes being run by the institution's social development wing. Many of them felt that credit alone does not help them unless it is associated with a livelihood support initiative. They also felt that guidance should be given to them to expand their existing business so as to generate more income from the use of the credit facility.

5.Interest rates charged to the clients were well below the market levels with periodic reduction in the rates linked to the reduction of lending rates by the banks or financial institutions. There were no instances where clients felt that the rate was high.

6.Repayment rates were 100 percent without any exception and a strict discipline was observed as far as weekly/monthly collection was concerned. Many of the clients felt that the staffs were excessively strict in the matters of collection with no tolerance for any aberration. However upon probing further, they also admitted that if such a strict discipline was not followed, they would never be able to pay their dues on time, and hence it was a necessary and important. They also admitted that they had to borrow from their neighbours on many occasion in order to pay the dues

on time.

7.There was also a demand for additional products for the clients who had graduated over a period of time with their requirements getting bigger and more diverse. However the current capacity of the institution was not equipped to handle multiple products which were demanded by many clients.

Analysis

There is a remarkable of transparency with respect to sharing of information with the clients. The cooperation extended in sharing all the business related data for this study is also a reflection of this aspect. The operations signify immense social orientation in the approach towards microfinance as a sustainable business, even though the MFI is getting transformed into NBFC. The promoters are keen to know every aspect of the business which would make the customers more satisfied and their services more relevant to the market requirement. There appears to be no lack of intention from the side of management as far as being socially relevant is concerned, however the management seems to be constrained by its small size and limited resources. Over the period of last 5 years, the management has decided to reduce the interest rate three times bringing it down to 12% flat per annum from the initial levels of 18%. This is a clear indication of sharing the benefits of reduced interest rates (by the Government) with the clients in order to bring them closer to the institution. Appropriate care is taken to avoid over-indebtedness and client protection principles appear to be in place, although it lacks a proper and systematic approach. The MFI would be able to keep its social mission intact if it keeps functioning in a synergistic manner with its social development wing, which is quite clearly happening at the moment.

4.3 Case Study-III- MFI-I, Gujarat.

MFI-I was incorporated as an NBFC in the year 1994-95. Earlier, the company was being run as marketing services firm, doing both marketing and financial intermediation since 1989. After the incorporation as an NBFC, the focus has been on lending operations, offering retail credit for personal loans, consumer loans and two wheelers. In 2006, a leading funding agency came on board, which gave a boost to microfinance operations. MFI –I has a pan-Gujarat presence through

its 61 branches covering more than 1,400 locations. The organisation takes pride in such extensive distribution network established in over 20 years, which helps in providing timely and responsive services to its clients. It especially supports the organisation to effectively reach out to the potential microfinance clients. Recently it has also undertaken expansion in neighbouring states of Maharashtra and Rajasthan. The two founder promoters have taken the responsibility as managing director and finance director respectively. The board of directors consists of 8 persons who are very well qualified and have rich professional experience.

The mission of MFI-I is to be one of the most efficient distributors of financial services having very wide reach, with a significant market share in microfinance.

Strategy and Approach

The major financial services offered by the MFI are credit for micro business, personal loans and vehicle loans. Insurance facility is extended to clients through IFFCO-Tokyo mainly for vehicle loans. The MFI also has introduced a group policy through New India Assurance Company for accident insurance for all clients at no additional cost.

Unlike Vardan and Prayas MFI-I targets the upper unbanked households in both urban and rural areas by providing individual microloans. The management believes in increasing income opportunities for people by fulfilling their credit needs for personal and business requirements. The services provided by the MFI help in bringing their clients into the mainstream financial sector which otherwise may not have been possible.

It must be mentioned that MFI-I has developed excellent systems to achieve financial bottom line which can also be used to fulfil social mission and goals thus achieving a double bottom line.

MFI-I has reached out to 96,032 clients through its network in Gujarat. The portfolio as of September 2008 was Rs 266 crores. MFI-I offers three loan products – microloan, two-wheeler and commercial vehicle loans. The loan size varies from Rs10,000 to Rs50,000. It can go upto Rs500,000 for purchase of a commercial vehicle. The repayment term ranges from 6 to 36 months and can be up to 48 months for higher loan amounts. Since the loan amounts are higher, the client selection is largely based on the disposable income of the client household. In case of microloans,

thrust is on the income generation activity of the client. The bottom-line is that the credit extended should result in growth of client business.

The credit operations at MFI-I are largely centralized for better control by senior management. The branches work as sales/marketing teams and all the credit related decisions are centralised at the head office and are undertaken by the credit department. MFI-I has a good mix of in-house staff and outsourced agencies for marketing and collection network to optimize productivity. It has also developed a customised integrated computerised accounting and MIS which uses Foxpro as the back end. The MIS is adequate and good for the purpose of tracking financial performance.

There are clear lending guidelines in the operations manual though there is no separate code of conduct for client protection. Standard documentation with clients enables transparent communication with the clients, which is reflected in the high client awareness.

Observations and Analysis

The study of MFI's 130 urban clients in Ahmedabad (122) and Mehsana (8) shows a lack of its focus on social development with all the clients drawn from higher income households. This is also reflected in the higher loan sizes and individual model of loan delivery. Self employment is the main source of income for majority of households (71%). Over 15% clients are involved in labour –casual and skilled. MFI-I's clients use credit mostly for non-farm self employment activities – trade, services and manufacturing. Unlike typical microfinance supported enterprise where it is run jointly by man and woman, majority of enterprises – 88% - were run by men.

Though MFI-I has clear HR policies and remunerative salaries for the staff, the staff dropout rate was found at 30.2% which is on the higher side. MFI-I does not have a formal code of conduct for client protection. MFI-I believe that the literacy level and exposure among clients make them fully aware of the financial decisions they make. Since MFI-I operates mainly in towns/cities, presence of other competitive players also enhances the exposure of clients. Hence MFI-I believes that clients are able to make well informed financial decisions.

Note: The data collection and analysis was undertaken by EDA Rural Systems Private Limited, a research and consultancy organisation, where the researcher interned as part of this study'.

MFI-I charges a declining interest rate of 18-21% p.a. on micro loans. A fee of Rs500-2,000 is also charged depending on the loan size. The loan term of micro loans ranges from 6 months to 36 months. The disbursement is done at the branch office through account payee cheques only. Post dated cheques are collected from the client at the time of disbursement. So effectively clients do not have to attend meetings every month and hence do not incur any opportunity cost. Thus the effective interest rate (EIR) for clients on microloans ranges from 38-41%

Conclusion

MFI-I has done extremely well in setting up vast distribution network in Gujarat to provide financial services. It has been able to set up efficient institutional systems to effectively meet the needs of its clients. MFI-I clearly caters to upper segment of microfinance that includes individuals or small and medium enterprises with loans of upto Rs50,000. According to Reserve Bank of India (RBI) guidelines a loan of less than Rs50,000 is categorised as microfinance under the priority sector lending norms. However, the organisation has not made any significant efforts to reach out to the poorer households and entrepreneurs that are in dire need of affordable financial services. By following a strategy that combines individual lending targeted at households having better networth and higher loan sizes MFI-I has effectively kept its microfinance programme away from the poorer households.

4.4 Case Study IV – MFI-II Enterprises Finance Pvt. Ltd, Uttarakhand

MFI-II Enterprises Finance Private Limited is an NBFC located in the state of Uttarakhand in northern India. It was started by an experienced social worker from a Delhi based NGO, who currently is acting as its CEO. The NGO commenced microfinance operations in November 2006 in Dehradun which the state capital. In March 2007, a non-deposit-taking NBFC was acquired by the NGO with equity support from a leading Microfinance Fund, to provide impetus to the microfinance operations. At present, MFI-II operates in urban, semi-urban and rural areas in 6 districts covering four states - 3 districts in Uttarakhand, 1 district each in Uttar Pradesh, Himachal Pradesh and Haryana (all neighbouring states in North India). It provides financial services to

women to empower them and creating livelihood opportunities for them. MFI-II mainly provides small loans to clients for enterprise start-ups or investment in existing enterprises. However, the senior management insist that MFI-II does not dictate loan utilisation and the clients may use it for household needs as well. MFI-II has expanded from a portfolio of Rs. 23.9 lakh as on 31 March 2007 to Rs. 5.7 crore as on 31 March 2008. Its borrowers also increased from 570 to 15,542 during the same period. As on September 2008 MFI-II served 28,836 borrowers with a portfolio outstanding of Rs. 10.8 crore. This rapid expansion has been a result of the determined efforts of the management.

Strategy and Approach

The mission reflects the organisational belief of reaching to business operators in both urban and rural areas. One of the long-term goals mentions about reaching to poor households. However, the key terms 'micro, small and poor' are not well defined. MFI-II is yet to formulate non financial goals (apart from outreach) & measurable objectives to track the changes it has envisioned from its microfinance operations. MFI-II gives preference to non-hilly regions and expands along the major highways due to high business potential and lower cost of operations. Very poor clients are screened out through household income based selection and housing index.

MFI-II's overall outreach was 28,836 borrowers as on 30 September 2008, with a portfolio outstanding of Rs.10.8 crore. The client base consists mainly of women, with some male groups formed during the initial stages of operation. The client selection is meant to choose above borderline poor, independent of caste. The poverty outreach does not seem to be very high, which could result from working in not-so-poor districts, with a large proportion of urban clients.

MFI-II follows 'Fair Practices code' compliant with RBI's guidelines and has a 'Conflict of Interest Policy' adopted from Bill and Melinda Gates Foundation. There is no separate client protection code, although the staff is well aware of their responsibilities to clients. MFI-II emphasises transparent communication with clients, but client awareness on effective interest rate (EIR) and nominal interest rate seemed to be low. The proportion of women staff is reasonable at 27%.

MFI-II adopts a Joint Liability Group (JLG) model for lending to its borrowers. Identification of

suitable areas for targeting clients, who are small business operators alongside highways in urban and semi-urban locations, is done by the Field Executives (FE). Interested women in identified locations are asked to form 5 member JLGs, wherein each member is responsible for ensuring repayment of her co-member loans. This is followed by a four-day Compulsory Group Training (CGT) for these JLG. The registration form of each member is filled on the 4th day of CGT. The registration form assesses the household sources of income, number of dependents and the asset holding at household level. Information on clients' house type is also collected (ownership, material of the roof, availability of water and electricity), which helps in categorising the client as very poor, poor, or medium poor. Screening of clients is done both on the basis of house type and monthly household income. Clients scoring low on housing index and having a household income of < 3,000 per month are rejected. However, the FEs were found to be more conservative in their approach and considered a monthly household income more than Rs. 4,500 per month for selection. While this is not a written policy of MFI-II, it is strongly assimilated and implemented in practice.

After a pre-assessment by a FE, the group is tested for awareness level and understanding of program terms and conditions by the Branch Manager, in Group Recognition Test (GRT). Groups that have successfully passed GRT are independently verified by Appraisal Assistants to ensure that no fraudulent data has been presented in the registration. Each centre has a Centre Leader who is democratically elected, and whose role is to ensure attendance at meetings, coordinate the repayments, and to support the Field Executives in following up default cases. The model supports the mission, by providing opportunity to women to do small business.

MFI-II Finance has two "loan products"; A large loan product "Home Improvement loan" has been recently introduced, for graduating clients. MFI-II provides loans to individuals in JLGs. The group loans have a term of 50 weeks, upto an amount ranging from Rs. 6,000 to a maximum of Rs. 10, 000. A housing loan product has also been designed to meet the needs of older clients. The 'House Improvement Loan' of Rs. 30,000 (first cycle) is for existing clients who have completed one loan cycle. The loan has tenure of 24 months, with monthly repayment pattern. Members have to form a group of three and two of the members can receive loan simultaneously. The co-borrowers become

guarantors, along with the third member as an additional guarantor. MFI-II also plans to launch 'Individual Micro Enterprise Loan' in the fourth quarter of 2009. This loan will target non-clients having small enterprises. MFI-II is not permitted to collect savings. It provides life insurance facility (mandatory loan linked) to its clients (& spouse) through tie-ups with Met Life and Birla Sun Life insurance companies. It also tied-up with Max New York Life for providing savings cum insurance product to members (Max Vijay product).

MFI-II's overall outreach extended to 28,836 borrowers in September 2008, an 86% increase from 15,545 borrowers in March 2008. The portfolio as on 30 September 2008 was Rs. 10.8 crores, an increase of 89% from Rs5.7 crores on 31 March 2008. MFI-II Finance aims to reach 1 million (10 lakh) poor households by 2015. The clients are spread across the states of Uttar Pradesh, Uttarakhand, Haryana and Himachal Pradesh, with 74% clients in Uttarakhand and 24% in UP. Of the overall outreach, 36% of active borrowers are from rural areas, the rest are from urban and semi-urban areas. In the initial years, MFI-II formed men groups but discontinued it later due to its focus on empowering women. Thus, all the new clients are women and there are only 248 active male borrowers. The concentration of operations (in terms of no. of members) in urban areas is very high, with 64% coverage in urban/semi-urban regions and the remaining constituting rural coverage. Majority of MFI-II clients (70 %) are from underprivileged communities. This includes the backward castes (SC, ST and OBC), and minority communities, mainly Muslims.

Observations and Analysis

The client survey was designed by EDA, and administered through cluster sampling by six FEs of MFI-II in 3 selected branches one each in Dehradun, Saharanpur and Haridwar district. The member profile of the sample (138 clients) was as follows:-

a) Remote rural 02

b) Rural 10

c) Semi urban 09

d) Urban 79

About 21% of the clients were based in villages, 8% in market areas and 71% in cities. MFI-II

targets clients from all castes and believes in providing equal opportunities to clients of different castes. 70% of its clients are from underprivileged communities. About 80% of clients have brick or cement house constructions. This is mainly due to the targeting strategy and the locations where MFI-II operates. Asset ownership is also high, with most households owning vehicle, and other assets. Given the urban context of a large proportion of operations, skilled labour (stitching of garments) emerged as the client's dominant activity from the client survey. Other activities supporting household income include non-farm self-employment, and casual labour. Few (~4%) of the respondents had salaried jobs.

MFI-II has a reasonable outreach to unbanked clients. Out of a survey of 138 clients, about 8% had taken a bank loan in the previous three years. However, substantial number of clients had some formal savings facility in bank or post office. Clients do not find banks accessible and approachable to avail loans and here, the role of MFI-II gains importance as they provide financial services at the doorstep of the clients. MFI-II also faces competition from other MFIs like Nirman Bharti/SHARE/ Disha and SKS. About 24% clients had obtained a loan from another MFI.

The poverty audit as per the national poverty line shows the proportion of clients of MFI-II Finance under different poverty lines (National Poverty Line, <1 USD per day, and <2 USD per day). It indicates that there is a likelihood of just 10.2% of households being below $1/day at PPP. Similarly, there is a likelihood of only 7.2% of being below national poverty line. It is clear that a majority of clients of MFI-II would fall in the category of borderline poor and non-poor households.

MFI-II comes directly under the ambit of the Reserve Bank of India (RBI), which regulates all NBFCs in India. However, there is no reporting required on client protection issues, although the RBI has issued a circular to all NBFCs (No. RBI/2006-07/414) instructing them to lay out appropriate internal principles and procedures in determining interest rates and processing and other charges and to share their actual costs (interest rates and other charges) with clients on a compulsory basis in keeping with the "Guidelines on Fair Practice Code for NBFCs". MFI-II tries to follow these guidelines formulated by the RBI.

MFI-II has incorporated the effective rate of interest (EIR), on various documents, including the

loan application form. This ensures that the clients have access to the information regarding cost of services. However, client awareness on EIR was low due to low literacy level and no reinforcement by the staff in the weekly meetings. Monitoring of client protection issues does not receive adequate focus as part of regular operations assessment by the Internal Audit team. The reports mainly cover adherence to operational procedures. MFI-II was yet to prepare guidelines on ‘Delinquency Management’ and ‘Customer Care Process’.

During the CGT conducted by the FEs the clients are informed about the salient features of the loan product. This is further emphasized during the GRT conducted by the Branch Manager. This is in accordance with the RBI requirement of communicating loan terms to the clients. The issue of over- indebtedness is not emphasised in MFI-II, as they believe in lending to clients having active loans with other MFIs. It is felt that the credit needs of clients are much higher than the loan amount currently provided by the MFIs individually or together.

Conclusion

MFI-II has an overview of what it wants to achieve, in terms of impacting poverty and bringing economic reliance to poor households. It believes that credit provided by one MFI is not enough for a household to meet its credit needs and thus, multiple lending by various MFIs to a client is acceptable to MFI-II. It has defined its purpose as strengthening economic capacity of urban and rural micro and small business operators to ensure their economic self-reliance.

It has charted out goals for itself in terms of achievement of outreach and financial stability but needs to set out social goals (it wants to impact poverty and reach poor households). In less than two years, MFI-II now had around 30,000 clients, which reflected the management’s commitment to the achievement of the listed organisational goals. The senior management brings considerable experience from the field, particularly in North India and MFI-II has benefited from this experience by not having to go through an elaborate “learning curve”. Systems have been well established and senior management positions filled with experienced staff. MFI-II is fast approaching to achieve operational self sufficiency, and may seek to measure and enhance its achievement of the ‘double bottom line’ by incorporating the measurement of social performance in its systems.

4.5 Case Study V- MFI-III Micro Finance Pvt. Ltd- Orissa

MFI-III Micro Finance Pvt. Ltd. is a NBFC, acquired in the year 2006 by the promoter of a leading NGO microfinance institution in Orissa in eastern India. MFI-III was established to segregate the microfinance operations of its parent NGO from its non-microfinance operations including micro-enterprise promotion, micro-marketing and social development. Currently the transfer of portfolio from parent NGO to MFI-III is underway with portfolio transfer of 21 branches in Khurda and Sambalpur districts completed. Portfolio transfer of an additional 252 branches is expected to be complete by March 2011. However in view of close link with its parent organisation, MFI-III has not yet been able to carve its identity amongst staff and clients. MFI-III's vision, mission, lending model, targeting approach, products and processes are all drawn from parent NGO. Subsequent to full portfolio transfer MFI-III will have separate staff exclusively for microfinance activities; however it will continue to lend only to groups formed by parent NGO and operate out of parent NGO's branches. As on 31 December'09, MFI-III had a client base of 10,036 in 772 groups and is set to achieve its vision of one million customers by 2011.

Strategy and Approach

MFI-III has clearly defined mission which it has been able to partially achieve by targeting the intended clients and offering a range of products. Although it has priced its loan product at a competitive rate, the overall cost to clients is significantly higher than the other MFIs. Appropriate policies have been designed to target the intended clients i.e. 'poorer sections of the society'. Area selection procedure including preparation of micro-plan ensures achievement of mission. MFI-III collects information on household economic status and uses household income to screen out the non-poor clients.

Product range of loan, savings and insurance is in consonance with the mission to provide 'range of financial services'; however conditions to avail loan product including compulsory membership of parent NGO, maintaining fixed deposit to avail loan, compulsory insurance products are not favourable to clients and may provide competitive advantage to other players.

No formalised Code of consumer protection is there at present; however some of the policies and systems emphasise on avoiding multiple lending, maintaining transparency and privacy of client information and behaving ethically. Significantly high cost to client negates the performance on other aspects of client protection.

Sufficient efforts in aligning human resource systems with its mission by appropriate recruitment criteria, properly orienting staff through one month of training and providing various staff benefits. However charging new staff for the induction training and focus on purely quantitative indicators during appraisal undermines its efforts.

MFI-III's parent organisation provides non-financial services including promotion of micro-enterprises, micro-marketing and social development. MFI-III has continued with parent NGO's SHG lending model. Presently since MFI-III is in transition phase, it lends to groups formed by parent NGO's staff. MFI-III would continue to lend to groups formed and nurtured by parent NGO for six months. MFI-III follows operational manual of parent NGO for its operations. In order to align its operation with the mission of the company, areas with more than 60% of households engaged in income generating activity is chosen. Other criterion for area selection is that there should be no other MFI or agency working with SHG model. Information on poverty profile and economic status of families in the area is collected through secondary survey.

The parent NGO or MFI-III do not have a policy pertaining to minimum percentage of below poverty line (BPL) families in the area. It however has policy of having at least 50% of clients from households with less than Rs24,000 annual income. Additionally a baseline survey is done and micro-plan is prepared and presented to the Governing Body of parent NGO for approval. Factors including distance from existing branch and operational cost are also considered. In line with its vision to involve community, the MFI conducts a meeting with the Panchyati Raj Institutions (PRI) members along with villagers to explain about parent NGO, vision, mission and single window approach since parent NGO is the organisation forming the groups. Subsequently 10-20 members form groups. One of the important criteria during group formation is that all members should be from same economic profile. Hence below Poverty Line (BPL) members and above Poverty Line

(APL) members are never mixed in a group. Rural households with annual income of more than Rs24,000 cannot become member. There is no stated policy for households in the urban areas but for practical purposes the households with annual income of upto Rs 35,000 in urban areas can become members. With respect to operations in other states, income level may be different which is unstated and depends upon the judgement of the field staff. Group formation stage is followed by 1st group meeting wherein group passes a resolution regarding amount of savings. Parent NGO has an upper ceiling for savings of Rs. 200 per month per member to screen out non-poor members. In this meeting members are also trained to apply for opening an account in the bank. Usually time taken from mobilising members to account opening is one to two months. Weekly meeting of groups for savings is attended by the Community Organisers (COs). Groups are eligible for credit after six months of savings. Groups are graded based on National Bank for Agriculture and Rural Development (NABARD) SHG grading format and only groups with grade A or B are given loans. C grade groups are retrained and nurtured for three months. It takes 15 days to disburse loan from the time groups are graded. The loan amount is linked to amount of savings in addition to levels of income and expenditure. Loan is sanctioned by the loan committee including Chief Manager and Credit Manager at MFI-III, District Manager at parent NGO and the Branch Manager (BM). Loan is disbursed in cash at group meetings after charging the group for processing fee and stationery. Collection is done at the group meetings and copy of a group receipt for collection is given to the group. The field staff/COs that are staff of parent NGO, are responsible for forming and nurturing groups. They also act as point of contact for all other services of parent NGO. Each CO is required to handle 25 SHGs. Each branch has four COs and three Area Managers (AM). The AMs are entrusted only with the financial transactions and therefore make disbursements and collects repayments on a monthly basis. AMs are not involved in any other activities of parent NGO. The Branch Manager (BM) is primarily responsible for monitoring branch operations, microfinance as well as other non-credit activities. The BM is also responsible for loan processing, managing cash flow and reviewing staff performance. The BM reports to the District Manager (DM) who is mainly required to liaison with government officers for development activities.

MFI-III currently operates through 7 branches in Sambalpur district and 14 in Khurda. As mentioned earlier MFI-III lends to groups formed by parent NGO. Hence post establishment of MFI-III, in January 2008 Governing Body decided to transfer portfolio of branches in Khurda and Sambalpur districts. Branches were chosen based on portfolio quality, geographical proximity and concentration of SHGs. Though new groups are being formed in MFI-III branches by the COs, MFI-III will not add branches until entire portfolio is transferred from parent NGO. By March 2011 the entire portfolio transfer is expected to be complete and MFI-III's operations will spread through 14 states and over 250 branches. Parent NGO has a policy to have at least 51% of outreach in rural areas which would result in similar pattern of outreach in MFI-III.

MFI-III identifies farmers, small businesspersons, traders, weavers and handicraft artisans as its clients. It uses household income levels for targeting its clients in addition to the BPL and APL classification. This targeting approach enables it to achieve its mission of selecting the 'poorer section of the society' for empowerment. Members of Mission Shakti programme, client of any other MFI or bank, government employee and persons with criminal background can not avail loan from MFI-III. Though MFI-III does not have strategy to target marginalised section of society, 14% of its clients are SC (26%), ST (23%), OBC (29%) and minority (8%). Eligibility follows standard MFI criteria, including: age limit of 18-50, only one member from one family and clients of same economic level in a group.

Observations and Analysis

This section draws on the data gathered from the 124 clients who were individually interviewed by EDA staff over different geographical locations (urban, semi-urban and rural). About 73% of the sample includes clients who have been associated with MFI-III for over a year. Thus, the information might not be ideal in reflecting outreach, to the extent that some changes might have taken place since joining MFI.

A very small proportion of the surveyed households have access to any form of credit. About 16% have loans from other MFIs, only 3% have availed bank loans in the past three years while 6% have outstanding loans from moneylenders. Access to savings facilities seems somewhat better with 39%

of the households having a bank account while 19% of the sample saved in post offices. Only 4% of the surveyed clients or their spouse maintained saving with chit funds. However in view of awareness of clients about savings since they already maintained group saving account in bank facilitated by MFI, financial inclusion in terms of savings is low which could also be due to limited affordability to save.

Analysis of the client survey data reveals that MFI-III's client targeting in urban areas is fairly commensurate with the poverty incidence in urban areas in Orissa and India at each poverty line except NPL. However, the poverty incidence amongst sample clients was significantly less than the poverty incidence in rural areas in Orissa and India at those lines.

Conclusion

MFI-III's growth so far inorganic since it is in transition phase. Portfolio transfer is in process and is expected to be complete by end of 2010-11 which would result in MFI-III's presence in 14 states. However even subsequent to full transfer of portfolio, its growth in terms of outreach and portfolio would be dependent upon parent NGO. Notwithstanding the dependence, MFI-III is set to achieve its vision of 'one million customers by year 2012' by the end of 2011. As of now MFI-III is in the process of mobilising equity funds to facilitate portfolio transfer from parent NGO in addition to equity infusion from own sources. MFI-III's major loan product is group loan product and has recently introduced Pure It loans and sanitation loans. It may soon offer Nokia phones on credit.

In terms of defining and tracking its social performance, MFI-III needs to effectively use and analyse social indicators currently captured in the MIS. Its performance on aspects of client protection is significantly undermined by making insurance products compulsory resulting in significantly high cost to clients. Though the intention is to protect the clients from unforeseen events and disasters, they are burdened with paying extra to avail loans. It will be good on the part of MFI-III/parent NGO to leave the choice with the clients to avail insurance facilities and other non-credit product by delinking it from loans.

4.6 Special Case Study on Progress out of Poverty Index (PPI) – MFI IV, Delhi

The Progress out of Poverty Index (PPI)

PPI is the most widely used method to identify the target customers in the whole of the developing world. Considering its importance, it was decided to do conduct a small study at one of the MFIs in Delhi to demonstrate the use of PPI in India.

Developed by Mark Schreiner, Grameen Foundation, the Progress out of Poverty Index is very accurate and simple to use for both internal learning and external reporting. It is essentially a 10-indicator composite index with simple, observable indicators that can be used as proxies to determine whether a household is likely to be living below a specified poverty line. It is objective and based on national survey data with quantitative and observable indicators with great accuracy.

The national sample survey (NSS) data is used to rank indicators that strongly correlate with poverty. These indicators are tested and vetted with local MFIs. All indicators on the national household survey are ranked according to how strongly they predict poverty levels. From this comprehensive list of indicators (400-1000), the list is narrowed to 100 most relevant indicators. Using statistics a score card is prepared with 10 indicators, each of these indicators are assigned a score to get the overall poverty score.

The indicators are selected considering the practicality of information collection. They are strongly linked to poverty and easy to observe and are liable to change over time. The scores can be between 0 and 100, where a score of 0 means the client is extremely poor. The score is associated with poverty likelihood via a simple table (see annexure 3). The PPI is a very effective tool to classify clients for target outreach, for market segmentation and to track changes in poverty over time, thereby aligning the organisation's strategy with its mission.

Illustrative case study on PPI

Started in 2007 as NGO, MFI-IV got transformed into NBFC in 2009. A brief discussion with the General Manager at the MFI indicated his outlook was positive and welcoming to changes in the existing systems. The Branch Operation Manager was well aware about PPI indicators and other

aspects related to SPM. Field staffs were quite old in the system and well experienced. In order to understand the PPI implementation at the MFI, it was decided to verify the data which was collected by the field staff by visiting households of a random sample of 15 clients from one branch in Delhi.

When the data collected was cross checked against the actual observations at the clients' household following discrepancies were found (refer Table 4.6.1)

Table-4.6.1

Sr. No	Client	Discrepancy details		
		PPI Indicator	Data as per PPI form	Field observation
1	Client-1	House is all pucca	yes	No, Ceiling is not
		Almirah/Dressing table	Yes	No
2	Client-2	Number of fans	1	>2
		Almirah/Dressing table	No	yes
3	Client-3	TV	yes	No
		Almirah/Dressing table	No	yes
		No of fans	No indication	1
4	Client-4	House is all pucca	yes	No
5	Client-5	Members between 0-17 years	1	3
6	Client-6	Two wheeler/cycle	No indication	Owns a cycle

Observations and Analysis

This was one of oldest branches of MFI-IV and the field staffs were also very well experienced. Considering this, it was expected that the data collected would be accurate. However out of the 15 client forms verified during the visit, a total of 10 discrepancies in the data of 6 clients were observed at field level. This indicates lack of proper training. Due to lack of time, and limited scope of the study, training methodology was not evaluated. However communication with the staff and with clients needs certain improvements. A simple question like, "House is all pucca?" generated a standard positive reply from the clients. However when probed deeper by asking, "What about the ceiling/roof?" the responses changed. This sort of probing was not observed when the field staffs were collecting information. Similarly it was felt that there is a need to ask some questions in different ways to ensure that the client properly understands the information being asked for. One of the clients could not understand the meaning of television, but accepted that she owned a T.V! Similarly there was difference in perception and understanding of "fans" as different from air

coolers and exhaust fans, which were observed in client households. Some other observations are given as follows:-

The PPI questions appear very simple to ask and often the field staffs did not seem to realise the importance and depth of these questions. The apparent simplicity of the questions leads to subjectivity in data collection, where accuracy of the information is often left to individual expertise of the staffs. Some questions appeared inadequate when asked in isolation and many others would have served the purpose better if there were follow-up questions of similar nature. In this context some observation are as below:-

- As mentioned above, when a question was asked, “Residence all pucca"?” all the clients answered in the affirmative. It required another follow-up question like, “What about the ceiling/roof?” in order to get accurate information.
- Most of the clients indicated LPG as the primary source of energy for cooking; however it was observed that they also used kerosene. Some clients lamented that because kerosene is not freely available to them, they are forced to use LPG. The question in the PPI form does not elucidate such a detailed response if asked in the way it has been framed. Also there is no option to select duel fuel in the response.
- Regarding the number of fans in the household, the clients took it for granted that the question pertains only to the ceiling fans. In spite of having air-cooler and exhaust fan in once case, those were not counted while filling the form by the field staff.
- Similarly there was some confusion regarding the principal occupation of the household where the staff would require training.
- The indicator regarding the number of pressure cookers in the household appeared to be somewhat irrelevant in these cases, as all the households owned one pressure cooker each. This seems mainly because of their easy availability and awareness among women of the advantages of speed and convenience. However whether these same women use pressure cookers when they go back to their villages- needs to be verified. Also this parameter needs to be understood in the cultural context of a society where cooking is

taken as an elaborate activity and where women do not have a choice, using pressure cookers may not be found even in economically well off households.

- The indicator regarding the number of pressure cookers in the household appeared to be somewhat irrelevant in these cases, as all the households owned one pressure cooker each. This was mainly because of speed and convenience; however whether these same women use pressure cookers when they go back to their villages, needs to be verified. Also this parameter needs to be understood in the cultural context of a society where if given a choice, most of the women would like to spend more time in culinary activities.
- Another general observation while analysing the client responses was the striking indication of their purposeful attempt to be 'politically' correct in order to show that they genuinely deserve credit. There was a concealed apprehension that any inappropriate response might result in loan cancellation- since the PPI data was collected just prior to disbursements.
- There is a great need to eliminate subjectivity in PPI data collection and it would serve the purpose well if the field staffs are exposed to regular trainings and examined at regular intervals regarding their understanding of the indicators.

Conclusion

Considering the above observations, it would be difficult to use the existing data for the purpose of SPM implementation. Besides, the errors in collecting information at field level would make MIS unusable even if the data is accurately fed into the system according to PPI forms. However the situation is indicative only for one branch and cannot be generalised for the entire operations of the MFI. A more comprehensive study comprising sample clients from all the branches of MFI-IV needs to be undertaken before reaching a final conclusion.

Chapter 5
Synthesis and Findings

This chapter synthesises the major findings out of the five case studies in the earlier sections. The illustrative case study on PPI has been excluded because it was with a limited purpose of demonstrating PPI in MFIs in India.

MFI Profiles

Exhibit-5.1 indicates the profiles of the MFIs studied. When compared with the mission statements each MFI indicates reaching out to poor women in rural areas and those financially excluded as one of the key priorities. Analysing the data shows a different picture. MFI-I has no clients in rural areas and focus of on women seems to be negligible with just 2.7% clients as women. The individual loan delivery mechanism also indicates there is hardly any effort to promote group enterprises to generate employment. The fact that MFI-I was a commercial finance institution during the initial years and subsequently diversified into microfinance business indicates that the lure of financial gains would have been the motivating factor for this business expansion rather than social passion. Hence the lesser focus on social aspects. The other four MFIs were NGOs at one stage with greater social focus, and this has still remained as one of the priorities even after the transformation as reflected by the higher percentages of rural poor and women clients. Non-financial services which are absolutely essential for the poor to make the best use of credit facility are diminishing as the MFIs are getting transformed into NBFCs. It needs to be seen in the context of the for-profit institutions over a period of next 5-7 years, how they manage these services. There is also an apprehension that as more and more for-profit institutions start expanding their business, non-financial services would become synonymous to cost centres and affect their performance in the balance sheets. This apprehension does not appear to be completely groundless.

Exhibit-5.1

MFI profile	MFI-I	MFI-II	MFI-III	Prayas	Vardan
Institutional form	NBFC	NBFC	NBFC	NBFC	NBFC
Year started microfinance	1995	2007	2006	2006	2003
Microfinance delivery model	Individual	Grameen	Self-Help Group (SHG)	Grameen	Grameen
Number of members	96032	28836	10,036	10716	7500
% rural	0	21	61	33	NA
% peri-urban/semi-rural	0	8	19	67	NA
% urban	100	71	20	0	NA
% women	2.7	99	100	100	100
Number of active borrowers	96032	28836	10036	6945	7500
Gross portfolio outstanding (Rs. crore)	266	10.8	7.5	2.8	6.5
Non-financial services prov - integrated with operations	Nil	Health care, Vocational training,education	micro-enterprise, micro-marketing, health & nutrition,education, water, sanitation, NRM,vocational training, tribal development, minority empowerment	Livelihood support, natural resources management	Nil

Mission and Systems

The mission statements when analysed in context of social relevance indicate that MFI-I has little or no focus on poverty alleviation (Exhibit 5.2). One would be compelled to question the intentions of diversification into microfinance business without any social orientation. It is obvious then, that the attractiveness of this business in terms of low costs and relatively high returns is the main motive behind business diversification. Outreach to very poor is another area of concern with 3 out of 5 MFIs not having their focus on this segment. One would like to question here that if the MFIs do not wish to target the very poor segment, do they really deserve to be classified as priority sector lenders and receive patronage from the Government and RBI?

Comparison of the governance structure indicates that all the MFIs have very well qualified and experienced board members; however the reporting does not include social aspects. Apex membership bodies like Sa-Dhan and MFIN are taking the initiative to develop a comprehensive set of framework for social reporting in consultation with EDA Rural Systems, however much needs to be done by the Government and RBI if social performance management is to be universally applied.

Exhibit-5.2

Mission and systems	MFI-I	MFI-II	MFI-III	Prayas	Vardan
Mission orientation: Outreach to rural areas	No	Yes	Yes	Yes	Yes
Outreach to very poor	No	No	No	Yes	Yes
Outreach to poor	No	Yes	Yes	Yes	No
Outreach to low income	Yes	Yes	No	Yes	No
Outreach to poor women	No	Yes	No	Yes	Yes
Outreach to vulnerable people	No	No	Yes	Yes	No
Support to livelihoods/Small enterprises	No	Yes	No	Yes	No
Improve - economic status/quality of life…	No	Yes	No	Yes	No
Poverty reduction	No	Yes	No	Yes	Yes
Clear communication within organisation - evidence for staff understanding and commitment	No	Yes	No	Yes	Yes
Governance					
Board structure - financial and social skills	Well experienced members. Social Skills absent	Qualified and experienced members however less focussed on social skills	Qualified and experienced members however less focussed on social skills	Qualified and experienced members with clear focus on social skills	Qualified and experienced members however less focussed on social skills
Reporting to board includes social aspects	No	No	No	No	No

Social Goals

Exhibit-5.3 presents a comparison of all the 5 MFIs with respect to their social goals. A sample of clients was interviewed either by EDA staff or the researcher to generate information regarding the social goals. Whereas MFI-I enlists through its mission statement that one of the main objectives of lending it to meet the needs of the financially excluded population, it is surprising to observe that 47% of the clients interviewed had access to formal bank account or post office and 16% had availed a loan also. In case of MFI-II and MFI-III, there were a high percentage of clients who were members of other MFIs (24 and 16 respectively). This when compared with client protection principles of the MFIs where in they work towards protecting them from getting over-indebted is an alarming situation. It may be argued that the client's needs are often not entirely met by a single loan from an MFI, and therefore multiple funding is allowed in the policy of many MFIs. However this gives rise to the debate about their intention! Is it really to help the clients or to increase their own market share and profits thereafter? This also becomes quite relevant when other financial services like insurance are compared. Although there was greater awareness about the premium amount for the insurance facility amongst the clients interviewed, the coverage and payout terms and conditions were not clear to a substantial proportion of clients. Is it then a facility for the clients

or just one of the many ways to ensure their own safety by the MFIs in order to remain profitable and financially sound? The fact that MFIs have made insurance compulsory for the clients prompts towards this intention.

Exhibit-5.3

Social Goal-Outreach (client households)	MFI-I	MFI-II	MFI-III	Prayas	Vardan
Classification of clients	ST 1%; Minorities 4%; SC 21%; Gen 51%;OBC 23%	ST 11%; Minorities 18%; SC 14%; Gen 30%;OBC 27%	ST 23%; Minorities 8%; SC 84%; OBC 29	ST 40%; SC 30%; OBC 20%; Others 10%	ST 50%; Minorities 25%; SC 20%; Others 5%
Sample size	130	138	124	60	55
% sample - rural	0	10	61	100	50
% client households with: formal savings account (Bank/PO)	47	32	39	5	20
loan from formal source (Bank/coop)	16	8	3	5	10
% - more than one member in this MFI	8	24	16	0	10
poverty assessment - method	PPI	PPI	PPI	PPI*	PPI*
Social Goal-Appropriate Services					
% clients who have completed primary school or above	33	19.3	33	35	50
% clients with no schooling	2	44	51	50	38
Financial products available					
Credit: loan options	43	87	44	30	45
Interest payable	89	64	67	75	65
Details of upfront deductions/other costs	88	74	51	90	85
Insurance (dfiferent products)					
premium amount	48	87	41	80	80
Coverage - terms of payout	45	74	44	55	50

** PPI is Progress out of Poverty Index- These MFIs use an adapted version*

Social Responsibility

Social responsibility as a practice is widely observed in all forms of businesses and is not just limited to microfinance. However this concept assumes critical significance because of the inherent nature of the clients who belong to the weaker sections of the society, uneducated and vulnerable. The overall comparison of the 5 MFIs (refer Exhibit-5.4) presents a grim picture on some of the parameters like avoiding over-indebtedness, gender approach and staff satisfaction. Pricing has always been a critical issue and it sounds cynical to leave this open for free market competition to decide. In a sector where the focus is being thrust on the vulnerable sections of the society, who hardly have any power to choose or any information to make prudent decisions, how would they avoid becoming victims to over-pricing is a case in point here. Also whether a free market exists

within the microfinance industry currently or in a vast and diverse country like India, one would see a free market is difficult to predict at this point in time.

Exhibit-5.4

MFI	MFI-I	MFI-II	MFI-III	Prayas	Vardan
Responsibility to clients					
Policy exists - formal/informal (date)	informal	informal	informal	informal	informal
Code of ethics for staff	Yes	Yes	drafted -staff to abide	Yes	Yes
Monitored as part of internal audit	No	Yes	No	No	No
Part of staff appraisal	No	No	Yes	No	No
Has effective systems to track multiple borrowing by clients	No	Yes	Yes	Yes	No
Has effective mechanism to protect clients against over-indebtedness	No	Yes	Yes	Yes	No
Clear phased guidelines for staff in dealing with client default	Yes	Yes	Yes	Yes	Yes
Effective and responsive mechanisms for client complaint	Yes	No	Yes	Yes	Yes
Client data in the MIS is protected, with policies in place for when data sharing is appropriate	Yes	Yes	No	Yes	Yes
Pricing (Rate of Interest)	18% reducing	15% flat	20% reducing	12 % flat	18% flat
Other Social Responsibility To staff					
HR dept/responsibility clearly defined	Yes	Yes	Yes	Yes	Yes
HR policies - well documented, comprehensive	informal	informal	partly	informal	informal
Compensation - reasonable level + benefits package - all staff	Yes	Yes	Yes	Yes	Yes
Benefits (leave, insurance)	Yes	Yes	Yes	Yes	Yes
Staff satisfaction survey	No	No	No	No	No
Training during year	Yes	Yes	Yes	Yes	Yes
Gender approach					
Gender aware policies and strategies - staff level	Yes	Yes	Yes	Yes	Yes
Gender aware policies and strategies - client level	Yes	Yes	Yes	Yes	Yes
% Women on staff: overall	4	27	46%	13%	19%
Management	11 Sr ; 8 Mid	12 Sr ; 11 Mid	50% Sr, 46% Mid	4% Sr	2% Sr
Field staff	0	34	50%	10%	20%

Chapter 6
Conclusion

In India, the states which have witnessed high growth of MFIs have also seen serious repayment problems (Rozas and Sinha 2010). Two institutions have come up in India-Alpha Micro Finance Consultants and Micro Finance Institutions Network (MFIN) to serve the collective interest of the MFIs. (Nair, 2010). Alpha has been designed to help the MFIs by providing credit bureau services while MFIN has come up with a "code of conduct" that urge MFIs to restrict themselves from over-lending (Mahajan and Vasudevan 2010). This becomes important in the wake of rapid expansion of the microfinance sector. Exponential growth in portfolio and geographic expansion to new territories could lead to dilution of the mission, as concluded in one of the case studies earlier (Refer Case Study-1). When a MFI decides to move into new territories, the key motive appears to be business expansion to capture more market share. In this backdrop, the social goals appear to take a back seat. The management tends to avoid risk taking in terms of outreach to rural areas and very poor clients and target relatively non-poor clients to ensure its own safety. Also along with this rapid expansion in financial services, the corresponding increase in non-financial services is ignored.

MFIs seem to believe that timely and proper credit is adequate to fulfil their mission. Many studies have pointed out that credit alone is not sufficient in bringing out the disadvantaged from the clutches of poverty. Beyond a particular scale of operations a micro-business may be more constrained by the entrepreneurial ability or the lack of access to non-local markets, which restricts the ability of many borrowers to move to larger loans (Titus, 2002). "Micro-financial services are a means or instrument of development, not an end in themselves" (Fisher, T. 2002). However most of the MFIs take it for granted that extending credit to the financially excluded poor will help them graduate out of poverty. The World Bank's World Development Report, 2000-01 states 'that poverty is more than inadequate income and human development- it is also vulnerability and lack of voice, power and representation' (ODI, 2001:2)

There is a clear manifestation while interacting with key staffs at MFIs about the satisfaction derived out of the feeling that the poor are being offered credit at “lower” rates, where they benchmark the rates with local moneylenders and not with nationalised banks. These “lower” rates charged to rural poor are substantially higher than the rates charged by any of the nationalised or private sector banks to non-poor clients across the country. The trend of more and more NGOs getting converted into NBFCs effectively translates into desertion of non-financial services and livelihood support programmes which seems to be the need of the hour for the poor, particularly in rural areas in order to derive maximum benefit from the credit facility. However if the current trend continues, there is possibility that MFIs may cease to consider themselves as social enterprises in the near future.

Social Performance Management (SPM) is a powerful tool for the MFIs to align their strategy with their mission. It is a great communication tool as well for the MFIs who want to communicate to the stake holders about the good work being done. Unfortunately, in the wake of rapid growth and expansion, the MFIs are not realising its importance. SPM in its current form is being insisted upon by the investors for evaluating the social returns from their investment. Though the trend is picking up, the progress is slow and much is left to be desired. Concerted efforts are being made by various agencies, and there is a hope that in the near future, SPM will emerge as not only a powerful social reporting tool, but also an instrument for internal self assessment.

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Annexure 1 : Map of India- States and Union Territories

Annexure-2 : Social Performance Indicators developed by EDA Rural Systems, Gurgaon

Aspect	Dimension		Process - SPM: assessment (question will ask for the details)		Quantitative: inputs outputs metrics
INTENT	1 Mission and vision	1.1	The MFI's vision/mission statement clearly articulates its social goals and values, including where it aims to work and which market segments it aims to serve		
	Governance	1.2	Is there a specified term for members to serve on the Board?		Out of total number of Board members:
		1.3	What is included in reports to the Board?	1.5	Number of Board members who have a strong social orientation and experience Number of Board members who are women Number of Board members who are clients Number of members on the Board for more than 3 years, more than 6 years
				1.6	Annual remuneration and benefits to the CEO Annual remuneration and benefits to field staff (after probation) Ratio of CEO's remuneration to new field staff's
		1.4	Incentives to the CEO reflect social goals and values		
STRATEGY	2 Planning and overall profile	2.1	The Business Plan clearly reflects targets for social goals and action to implement	2.4	% clients in group based lending model
				2.5	% individual clients
		2.2	Details of targeting strategy - how are households identified	2.6	% women borrowers - overall, group, individual
		2.3	Policy in areas where there are other MFIs		
				2.7	Annual growth rate - number of active borrowers Annual growth rate - portfolio
	3 Products	3.1	Range of credit products for productive purposes: general, micro-enterprise, small enterprise, agricultural	3.8	% borrowers accessing different loans (enterprise)
		3.2	Range of credit products for other purposes: school,housing, water/sanitation, medical, emergency	3.9	% borrowers accessing different loans (non-enterprise)
		3.3	Insurance products provided - compulsory	3.10	% borrowers with voluntary insurance (by type)
		3.4	insurance products provided - voluntary		
		3.5	The MFI product design is based on market research to understand different market segements and their financial requirements - and able to show market research reports		
		3.6	The MFI provides non-financial services to its clients (financial literacy, enterprise support, health education, medical services, legal counselling…)	3.11	% borrowers accessing different non-financial services - directly provided
		3.7	The MFI has arranged linked provision of non-financial services to its clients (financial literacy, enterprise support, health education, medical services, legal counselling…)	3.12	% borrowers accessing different non-financial services - linked

Annexure-2 (Cont.)

Aspect	Dimension		Process - SPM: assessment (question will ask for the details)		Quantitative: inputs outputs metrics
	4	4.1	The credit application process includes an evaluation of client's ability to repay the loan including a check on client credit history and existing debt, to avoid overindebtedness of clients - with clear definition and application of repayment/income ratio		
Values & policies for	Client protection	4.2	The MFI tracks multiple borrowing by its clients and keeps this below an agreed level	4.8	% clients also borrowing from other MFIs (1 MFI, 2, 3+)
social	[link with Smart	4.3	The MFI acitively discloses and promotes client understanding of loan terms and all costs in a language and manner that takes into consideration literacy levels of clients.	4.9	% clients aware of product terms and details
responsibility	Campaign]	4.4	The MFI has clear and ethical procedures in place in case of client default, which are explained to and accepted by clients at the time of loan disbursement	4.10	% clients aware of MFI policy in case they default
		4.5	The MFI has an effective system to obtain and respond to client complaints	4.11	% clients satisfied with staff interactions
		4.6	The information system of the MFI is protected and information about clients is only shared within agreed guidelines	4.12	Number of client complaints received: main types of complaint, MFI response
		4.7	The MFI has a policy to reduce costs to clients as much as possible, and has examples to demonstrate cost reduction	4.13	EIR on main loans - data reported to Microfinance Transparency
				4.14	Yield on portfolio - compared to portfolio structure (OER, FER, LLP)
				4.15	Cost of any insurance to clients
	5	5.1	The MFI has a dedicated HR manager and HR manual with provisions conforming with legal requirements		
	Staff	5.2	The MFI follows an equal opportunity policy both in recruitment and in promotion	5.6	% women staff - field, branch/area managers, senior managers, technical and supprt staff
				5.7	% permanent staff
		5.3	The MFI has a systematic procedure for staff performance appraisals and deciding salary scales	5.8	Annual average pay to field staff; Annual average bonuses paid to field staff
		5.4			
		5.5	The MFI has an established and effective mechanism to obtain staff feedback		
				5.9	Number of staff who left during the year
				5.10	Number of staff who were fired during the year
				5.11	staff turnover (excluding staff who are fired)
	6	6.1	At a minimum, the MFI has a clear exclusion list of enterprises it will not finance due to health, safety and environmental risks, which is applied and monitored		
		6.2	The MFI has taken steps to assess health, safety and environmental risks in financed enterprises, and staff are trained to educate/assist clients to address these risks	6.5	% clients assisted
	Health, safety and environment	6.3	The MFI promotes loan products linked to appropriate energy, water and sanitation products	6.6	% clients accessing such products
		6.4	The MFI takes reasonable steps to minimise its own environmental footprint (energy, paper, water)		

Aspect	Dimension		Process - SPM: assessment (question will ask for the details)		Quantitative: inputs outputs metrics
Systems aligned with mission & values	7 HR	7.1 7.2	The MFI has a systematic process of induction and training that reflects social goals and values Staff performance appraisal and targets reflect social goals and values	7.3 7.4	Number of new staff during the year % New staff/total staff Clients: field staff ratio
	8 MIS	8.1 8.2 8.3 8.4 8.5	The MIS of the MFI has a unique client ID The MFI is regularly tracking information to profile the economic and social status of the clients it serves The MFI tracks distribution of loan size disbursed at entry and over time The MFI tracks client exit through the MIS The MFI conducts exit surveys with clients who leave and analyses the reasons for exit		
	9 Internal Audit [copy of IA report]	9.1 9.2	internal audit teams include client level interactions to check on client protection issues Internal audit scope includes checking of social data - not just financial data Number of branches covered in internal audit in previous year		
Aspect	Dimension		Process - SPM: assessment (question will ask for the details)		Quantitative: inputs outputs metrics
Results	10 Depth of Outreach	10.1 10.2	What geographical area do you aim to reach: rural (village), semi-urban (town), urban (city) What economic level of clients do you aim to reach: very poor, poor, low income? Any level? Note - relevant poverty classfication for india: very poor = households in the bottom 50% of those living below the poverty line established by the national government Poor = Households living below the poverty line established by the national government or living on less than the US$1.25 a day international poverty line (at PPP) Low income = Households living on less than the US$2 a day international poverty line (at PPP) > $1.25	10.3 10.4 10.5 10.6 10.7 10.8 10.9 10.10 10.11 10.12 10.13 10.14	% clients by rural (village), semi-urban (town), urban (city) number of clients by district - to develop the following % clients in underdeveloped /most backward districts % client households at entry who are very poor % client households at entry who are poor % client households at entry who are low income % client households - SC/ST, BC or OBC, % client households - Muslims, Christian, other non-Hindu % women headed households (with no adult male earner) % rural households who are landless number and % of new businesses financed number of people (men/women) self employed in financed enterprises number of people (men/women) hired to work in financed enterprises % clients who have completed primary school (women/men) daughters/sons of primary/secondary school age atttending school
	11 Appropriate services	11.1	The MFI collects and uses feedback information from its clients about its products, at least on a bi-annual basis; and can provide examples of response to client feedback	11.2 11.3 11.4 11.5	% clients also accessing moneylenders % clients satisfied with MFI products - financial % clients satisfied with non-financial products (as applicable) client exit rate client exit rate - by cycle/poverty level
	12 Change'			12.1 12.2 12.3	Number and % of clients with the MFI 5 years or more % of clients at 5 years + who are very poor, poor, low income % of individual clients who have graduated from group lending
	Total indicators	42		46	

Annexure-3 : A Typical Progress out of Poverty Index (PPI) score card

	Indicator	Value	Points	Score
1	How many children aged 0 to 17 are in the household?	≥5	0	
		4	8	8
		3	11	
		2	17	
		1	21	
		0	31	
2	What is the household's primary energy source of cooki	Firewood etc...	0	0
		Any other fuel	8	
3	Does the household own a television?	No	0	0
		Yes	4	
4	How many acres of land does the household own?	Urban, any amount	0	
		Rural, 0 to <1	4	4
		Rural, 1 -4	7	
		Rural, >4	10	
5	What is the principal occupation of the household?	Agricultural laboure	0	0
		Operators etc..	6	
		Cultivators etc...	8	
		Sales worker rtc...	11	
		Professional salarie	13	
6	How many almirah/dressing tables does the household	None	0	0
		One	2	
		Two, or more	9	
7	Is the residence all pucca?	No	0	
		Yes	5	
8	Does the household own a pressure cooker or pressure	No	0	
		Yes	5	5
9	Does the household own a sewing machine?	No	0	
		Yes	6	
10	How many electric fans does the household own?	None	0	
		One or two	5	5
		three or more	10	
	Total Points			22

Annexure-4 : A set of questions set by the researcher for MFIs and its clients

1) What is the mission of your organisation?

2) What is your target market?

3) What has prompted you to choose this as the target market?

4) How do you classify and screen the customers?

5) How do you evaluate demand for credit?

6) How do you design your products and services? What market study is undertaken beforehand?

7) How do your clients use your services?

8) Do you think it is important to track use of micro credit by your clients?

9) If yes, have put any formal mechanism in place to monitor credit use? How does it function?

10) What is the client feedback mechanism followed w.r.t to satisfaction?

11) How do you measure the impact of your services upon the clients? (the methods used, frequency of assessment)

12) How do you make use of client feedback and impact assessment results in programme/ product design? (some instances where such information was used to modify products and services)

13) Why do some leave or fail to make full use of the services, while others remain active clients over many years?

14) What are your recruitment criteria for the staff and how are they incentivised?

15) How do you monitor that the client services are up to the mark and ensure that proper communication is in place between the organisation and client?

16) What would be the classification of clients based on your internal data w.r.t SC, ST, OBC, and Minority etc?

17) How do you handle default and ensure your safety client protection at the same time?

18) How important it is for you to know the end use of the credit facility by the client for the purpose of decision making?

19) What is the structure of your MFI? (Legal status, lending method, organisational structure, number of employees etc)

20) Whit is the governance structure? (Board size, composition etc)

Annexure-4 (Cont)

Product or Services related questions

1) What is the Rate of interest and method interest calculation (reducing balance/ flat rate)?

2) Do you collect advance EMI deduction from disbursement?

3) What is the Turn-around time from application to disbursement?

4) Whether disbursement is thru bank cheque or cash?

5) How is the staff accountability monitored?

6) What is the average ticket size? How is the size decided?

7) Are multiple loans allowed? How is this tracked?

8) What are the other charges?

9) Generally poorer the customer, higher is the rate of interest. Is it true?

SOCIAL PERFORMANCE MANAGEMENT

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Signature of the author: